— consis tently

Audi

Financial Report 2019

Key figures Audi Group

		2019	2018	Change in %
Production				
Automotive segment	Cars[1]	**1,802,073**	1,871,386	–3.7
	Engines	**1,969,731**	1,955,532	–0.7
Motorcycles segment	Motorcycles	**51,723**	53,320	–3.0
Deliveries to customers				
Automotive segment		**1,853,833**	2,081,418	–10.9
of which Audi brand[2]	Cars	**1,845,573**	1,812,485	1.8
of which Lamborghini brand	Cars	**8,205**	5,750	42.7
Motorcycles segment (Ducati brand)	Motorcycles	**53,183**	53,004	0.3
Workforce	Average for the year	**90,783**	91,477	–0.8
Revenue	EUR million	**55,680**	59,248	–6.0
Operating profit before special items[3]	EUR million	**4,509**	4,705	–4.2
Operating profit	EUR million	**4,509**	3,529	27.8
Profit before tax	EUR million	**5,223**	4,361	19.8
Profit after tax	EUR million	**3,943**	3,463	13.9
Operating return on sales before special items[3]	Percent	**8.1**	7.9	
Operating return on sales	Percent	**8.1**	6.0	
Return on sales before tax	Percent	**9.4**	7.4	
Return on investment (ROI)	Percent	**12.7**	10.0	
Ratio of capex[4]	Percent	**4.9**	5.9	
Research and development ratio	Percent	**7.9**	7.1	
Cash flow from operating activities	EUR million	**7,479**	7,013	6.7
Net cash flow	EUR million	**3,160**	2,141	47.6
Balance sheet total (Dec. 31)	EUR million	**66,878**	65,598	2.0
Equity ratio (Dec. 31)	Percent	**42.5**	45.3	

1) Including vehicles built locally by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China)
2) Including delivered vehicles built locally by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China)
3) In the 2019 fiscal year, the effects on earnings in connection with the diesel issue were of lesser importance overall when compared with the amounts reported as special items in the previous year.
4) Investments in property, plant and equipment, investment property and other intangible assets according to the cash flow statement in relation to revenue

007 Finances

INFORMATION
All figures are rounded off, which may lead to minor deviations when added up. The figures in brackets refer to the figures for the previous year. Internet sources refer to the status as of February 18, 2020. The Management Report contains forward-looking statements relating to anticipated developments. These statements are based upon current assessments and are by their very nature subject to risks and uncertainties. Actual outcomes may differ from those predicted in these statements.

Dr.-Ing. Herbert Diess
Chairman of the Supervisory Board

Dear Shareholders,

The Audi Group stabilized its delivery volume in the 2019 fiscal year and achieved robust business figures. The Company profited from its young and attractive model range, above all in the higher segments. In addition, the Audi Transformation Plan picked up speed and made a substantial contribution to operating profit. On the other hand, the difficult situation in many markets and also the switch to the new WLTP test cycle in the first half of the year negatively impacted sales figures.

With the “Audi.Zukunft” fundamental agreement, the Board of Management and employee representatives decided on extensive measures to safeguard competitiveness. For example, platform-oriented plant allocation and optimized plant capacities will assure the lasting future viability of the German sites. There will also be socially responsible adjustments to jobs coupled with an extended employment guarantee up until the end of 2029.

The Board of Management presented the new “consistently Audi” strategy at the Audi 2019 Annual General Meeting. One area in focus is sustainable mobility: By 2025 Audi wants to have around 30 electrified models in its range – some 20 of which will be fully electric. To achieve rapid and profitable scaling of electric mobility, Audi is also focusing on extensive Group synergies by using cross-brand architectures.

The Audi Group attributes these important decisions for the future and the robust operating performance to the huge commitment of the people who work for it. On behalf of the Supervisory Board, I would like to thank all employees for their wholehearted efforts. I am absolutely convinced of the potential of the Audi brand and of its continuing positive business performance.

The Board of Management gave regular, up-to-date, comprehensive accounts of its actions to the Supervisory Board. The Supervisory Board considered the economic framework and the Company’s business development and policy as well as its risk management and risk situation at ordinary meetings of the Supervisory Board convened each quarter, as well as on the basis of regular oral and written reports from the Board of Management, and consulted closely with the Board of Management on these matters.

“I am absolutely convinced of the potential of the Audi brand and of its continuing positive business performance.”

At its four ordinary meetings in 2019, the Supervisory Board also considered in depth the Audi Transformation Plan, the “Audi.Zukunft” fundamental agreement, plant allocations and utilization levels, capital investment as well as the product availability of key models. Furthermore, it held consultations with the Board of Management on progress with the digitalization and electrification of vehicles, and together with the Board of Management routinely determined the content of the Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG).

In agreeing to the plans for human resources, financial and investment planning, the Supervisory Board once again confirmed the Board of Management’s strategic decisions.

The restructuring and strengthening of the Board of Management to include competent new members from both within and outside the Group was an important aspect of the Supervisory Board’s work. As part of this, Sabine Maaßen was appointed Board Member for Human Resources with effect from April 1, making her the second woman alongside Hildegard Wortmann, who is very successfully in charge of Marketing and Sales. In this connection, the Supervisory Board also held one extraordinary meeting in the past fiscal year.

The diesel issue, in particular concerning the V6 and V8 TDI engines, accounted for a significant portion of the Supervisory Board’s work in the year under review. It was kept constantly informed of the diesel issue by the Board of Management in the 2019 fiscal year, both in writing and orally.

The Supervisory Board declared unequivocally that all those responsible at Audi must drive forward the ongoing processes and improvements relating to compliance, integrity and culture, and above all permanently anchor them in the workforce. This change process will continue long after the Monitor’s work has come to an end. Only if everyone at Audi acts with integrity and in keeping with the law and observes its values will Audi be a successful company in the long term.

In addition to its four ordinary meetings, the Presiding Committee of the Supervisory Board held one extraordinary meeting in 2019.

The average attendance rate in the past fiscal year was 98 percent. All Supervisory Board members were present at more than half of the meetings. The Negotiating Committee did not need to be convened in 2019.

The “Diesel” Committee oversees and supports the Board of Management in its investigation and reappraisal of events related to diesel issues. It also prepares the Supervisory Board’s consultations and resolutions on these issues.

The “Diesel” Committee came together for four meetings in the 2019 fiscal year.

The Audit Committee met once per quarter in the past fiscal year and considered mainly matters of risk management, compliance and auditing work, as well as key issues concerning the monitorship. The Audit Committee also considered the 2019 Interim Financial Report prior to its publication and conducted preparatory work for the 2019 annual financial statements. It also advised on the independence of the auditor, the findings of additional audits commissioned and the situation of the Company at the end of 2019.

Upon the proposal of the Supervisory Board, the Annual General Meeting of AUDI AG appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as auditor of the accounts for the 2019 fiscal year. The auditor of the accounts confirmed the annual financial statements of AUDI AG, the consolidated financial statements as well as the combined management report of the Audi Group and AUDI AG for the 2019 fiscal year, and in each case issued unqualified audit reports in each case with an additional note.

The auditing firm’s representatives explained the key findings of their audit in detail at the meetings of the Audit Committee and Supervisory Board. According to information supplied by the auditing firm, there were no circumstances that might give cause for concern about the auditor’s partiality.

Following examination of the audit documents received and based on its own conclusions, the Audit Committee recommended to the Supervisory Board at the meeting on February 21, 2020, that the annual and consolidated financial statements each be signed off. The Supervisory Board accepted this recommendation and signed off the annual and consolidated financial statements prepared by the Board of Management. The annual financial statements are thus established.

There have been no changes to the composition of the Supervisory Board since the close of the last Annual General Meeting on May 23, 2019.

There has been the following change in the composition of the Company's Board of Management since the close of the last Annual General Meeting:

With effect from July 1, 2019, Hildegard Wortmann took charge of the "Marketing and Sales" division.

The Board of Management has suitably taken account of the economic environment and future challenges when making its plans. Together with the entire workforce it will consistently promote the transformation of Audi into a provider of sustainable premium mobility. The Supervisory Board will continue to support the Board of Management in this undertaking to the very best of its ability.

Ingolstadt, February 21, 2020

Sincerely

Dr.-Ing. Herbert Diess
Chairman of the Supervisory Board of AUDI AG

007 Combined Management Report

of the Audi Group and AUDI AG for the fiscal year from January 1 to Dezember 31, 2019

SEPARATE NON-FINANCIAL REPORT
AUDI AG uses the option pursuant to Section 289b, Para. 2 of the German Commercial Code (HGB) and pursuant to Section 315b, Para. 2 of the German Commercial Code (HGB) to be exempted from submitting the non-financial declaration and the non-financial Group declaration, and refers to the combined separate non-financial report of Volkswagen AG for the 2019 fiscal year, which will be made available on the Internet in German at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2019/Nichtfinanzieller_Bericht_2019_d.pdf and in English at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2019/Nonfinancial_Report_2019_e.pdf by no later than April 30, 2020.

BASIS OF THE AUDI GROUP

The Audi Group, comprising the Audi, Lamborghini and Ducati brands, is among the best-known manufacturers of premium automobiles, supercars, Super SUVs and sporty motorcycles. Through our strategy we want to "unleash the beauty of sustainable mobility" in the premium segment – fascinating, flexible and free of emissions.

STRUCTURE

/ COMPANY

The parent company of the Audi Group is AUDI AG.
In addition to AUDI AG, the Audi Group comprises all material companies or entities over which AUDI AG exercises direct or indirect influence. The Audi Group is a decentralized organization, with the individual subsidiaries conducting their business activities independently. Group management and governance are ensured through guidelines, channels of reporting and committees. Our business activities mainly comprise the development, production and sale of cars, along with the task of managing the Audi Group. The Management Reports of the Audi Group and AUDI AG are combined in this report.

/ CONSOLIDATED COMPANIES

Effective January 1, 2019, management responsibility for the multi-brand sales companies Audi Volkswagen Korea Ltd., Seoul (South Korea), Audi Volkswagen Middle East FZE, Dubai (United Arab Emirates), Audi Volkswagen Taiwan Co., Taipei, and Volkswagen Group Italia S.p.A., Verona (Italy), was transferred to Volkswagen AG, Wolfsburg, under a control agreement – the legal ownership structures remain unchanged – and the companies concerned were deconsolidated. Because 100 percent of the shares in the companies are still held, they have been included in the consolidated financial statements of the Audi Group using the equity method since January 1, 2019.

In addition, the companies Autonomous Intelligent Driving GmbH, Munich, and Shanghai Ducati Trading Co., Ltd., Shanghai (China), have been fully consolidated in the consolidated financial statements of the Audi Group since January 1, 2019. The initial consolidation of these companies did not have a material impact on the net worth, financial position and financial performance of the Audi Group.

*Read more online about the Group companies in the **statement of interests** pursuant to Sections 285 and 313 of the German Commercial Code (HGB) at **www.audi.com/subsidiaries**.*

*Read more about the **group of consolidated companies** in the notes on **pages 129 f.***

/ BRANDS AND PRODUCT PORTFOLIO

The Audi Group, comprising the Audi, Lamborghini and Ducati brands, is one of the best-known manufacturers of premium automobiles, supercars, Super SUVs and sporty motorcycles.

As a progressive premium brand within the Volkswagen Group, we want to delight people with premium mobility and place the focus on our customers' wishes. Audi stands for "Vorsprung durch Technik." The product portfolio of the Audi brand extends from the Audi A1 car line, through the A3, A4 and A5 product families, right up to the full-size car lines A6, A7 and A8. In addition, the TT car line emphasizes our brand's sporty character. We also enjoy a broad presence in the SUV segment with the Audi models Q2, Q3, Q5, Q7 and Q8. We presented the Audi e-tron, the first fully electric SUV from the Audi brand, back in the 2018 fiscal year and introduced it on the market in the first quarter of 2019. Since November 2019, it has also been possible to configure the first fully electric Audi Sportback – the Audi e-tron Sportback. A further Audi series-production model with fully electric powertrain for the Chinese market, the Q2 L e-tron, appeared in the 2019 fiscal year. Our performance and high-performance models include the S and RS models as well as the R8 car line, which is also the mainstay of our customer racing activities. A wide range of customization options available through the programs “Audi exclusive” and “Audi Sport performance parts” alongside lifestyle articles in the “Audi collection” complete our portfolio.

The high-performance models of the Lamborghini brand are renowned, in our opinion, for their excellent driving dynamics, striking design, consistent use of lightweight construction and high quality of materials and finish. The product portfolio of the Lamborghini brand comprises models of the Huracán and Aventador car lines, as well as exclusive special models. With the addition of the Urus to the product range in 2018, Lamborghini established the segment of the Super SUV, which combines off-road capability with the handling characteristics of a supercar.

With its motorcycles, the Ducati brand, in our opinion, particularly embodies sportiness, modern design, lightweight construction and high-performance engines. The product portfolio comprises the models of the Scrambler series as well as the models that make up the Diavel, Hypermotard, Monster, Multistrada, Streetfighter, Panigale – previously called Superbike – and SuperSport series.

In the early part of 2018, the Volkswagen Group created the brand groups “Volume,” “Premium” and “Sport & Luxury” among others. This leadership model paves the way for streamlining Volkswagen Group management processes, strengthening the brands and extending their scope of responsibility. It allows synergies within the Volkswagen Group to be harnessed more consistently and decisions to be made and implemented more rapidly. Under the new approach the Audi, Lamborghini and Ducati brands constitute the “Premium” brand group.

*Read more online about our **product portfolio** on our brand websites **www.audi.com**, **www.lamborghini.com** and **www.ducati.com**.*

The company headquarters of Audi Sport GmbH is located in Neckarsulm. As well as cars, Audi Hungaria Zrt., Győr (Hungary), builds engines and electric powertrains for the Audi Group as well as for other Volkswagen Group companies.

/ SALES STRUCTURES

The Audi Group sells vehicles of the Audi and Lamborghini brands as well as motorcycles of the Ducati brand internationally through its own sales companies or those belonging to the Volkswagen Group and in partnership with local importers. In addition, Audi Singapore Pte. (Singapore) additionally sells cars of the Bentley brand.

*Read more about our **deliveries** on **pages 30 ff.***

/ MAIN PRODUCTION SITES

The sites at which cars of the Audi and Lamborghini brands as well as motorcycles of the Ducati brand were manufactured in the 2019 reporting year are shown in the following diagram.

Brussels/Belgium
Audi Brussels S.A./N.V.
- e-tron [1]
- e-tron Sportback [1]

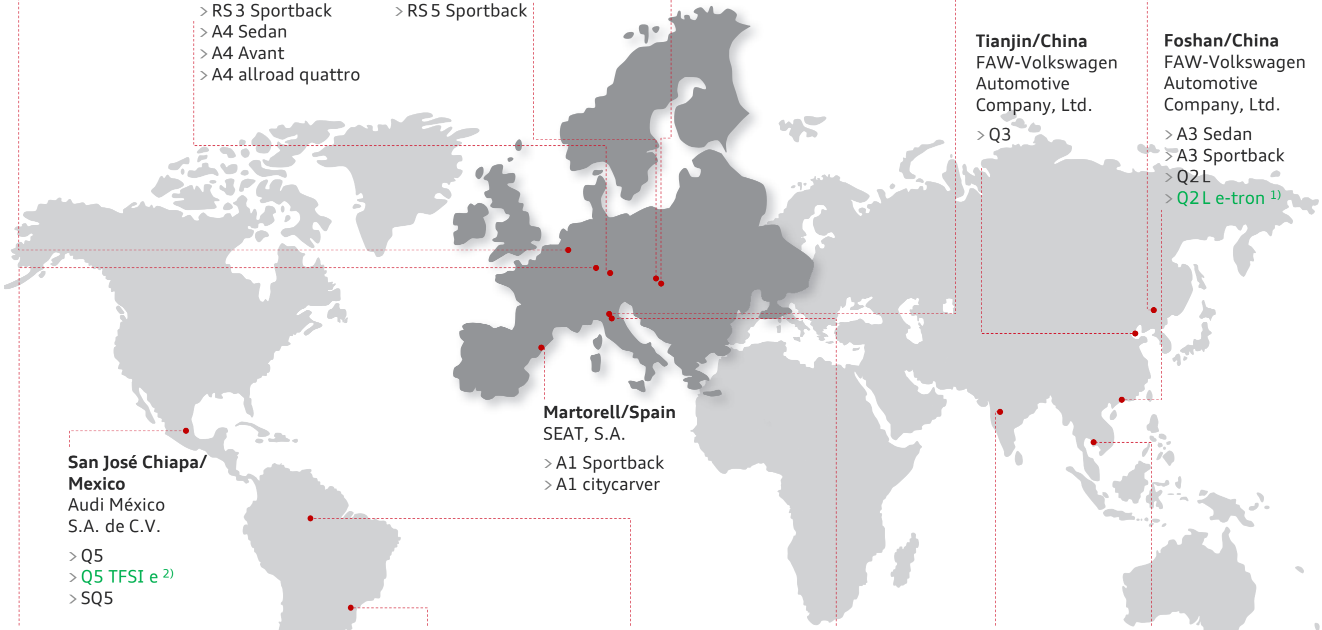
Ingolstadt/Germany
AUDI AG
- Q2
- SQ2
- A3 Sedan
- A3 Sportback
- A3 Sportback e-tron [2]
- S3 Sedan
- S3 Sportback
- RS 3 Sedan
- RS 3 Sportback
- A4 Sedan
- A4 Avant
- A4 allroad quattro
- S4 Sedan
- S4 Avant
- RS 4 Avant
- A5 Coupé
- A5 Sportback
- S5 Coupé
- S5 Sportback
- RS 5 Coupé
- RS 5 Sportback

Bratislava/Slovakia
Volkswagen Slovakia, a.s.
- Q7
- Q7 TFSI e [2]
- SQ7
- Q8
- SQ8
- RS Q8

Győr/Hungary
Audi Hungaria Zrt.
- A3 Sedan
- A3 Cabriolet
- S3 Sedan
- S3 Cabriolet
- TT Coupé
- TT Roadster
- TTS Coupé
- TTS Roadster
- TT RS Coupé
- TT RS Roadster
- Q3
- Q3 Sportback
- RS Q3
- RS Q3 Sportback

Sant'Agata Bolognese/Italy
Automobili Lamborghini S.p.A.
- Huracán Coupé
- Huracán Spyder
- Aventador Coupé
- Aventador Roadster
- Urus

Changchun/China
FAW-Volkswagen Automotive Company, Ltd.
- Q3
- A4 L Sedan
- Q5 L
- A6 L Sedan
- A6 L Sedan TFSI e [2]



Tianjin/China
FAW-Volkswagen Automotive Company, Ltd.
- Q3

Foshan/China
FAW-Volkswagen Automotive Company, Ltd.
- A3 Sedan
- A3 Sportback
- Q2 L
- Q2 L e-tron [1]

Martorell/Spain
SEAT, S.A.
- A1 Sportback
- A1 citycarver

San José Chiapa/Mexico
Audi México S.A. de C.V.
- Q5
- Q5 TFSI e [2]
- SQ5

Neckarsulm/Germany
AUDI AG, Audi Sport GmbH
- A4 Sedan
- A5 Cabriolet
- S5 Cabriolet
- A6 Sedan
- A6 Sedan TFSI e [2]
- A6 Avant
- A6 allroad quattro
- S6 Sedan
- S6 Avant
- RS 6 Avant
- A7 Sportback
- A7 Sportback TFSI e [2]
- S7 Sportback
- RS 7 Sportback
- A8
- A8 TFSI e [2]
- A8 L
- A8 L TFSI e [2]
- S8
- S8 L
- R8 Coupé
- R8 Spyder

São José dos Pinhais/Brazil
Audi do Brasil Indústria e Comércio de Veiculos Ltda.
- A3 Sedan
- Q3

Manaus/Brazil
DAFRA da Amazônia Indústria e Comércio de Motocicletas Ltda.
- Scrambler
- Diavel
- Monster
- Multistrada
- Panigale
- SuperSport

Bologna/Italy
Ducati Motor Holding S.p.A.
- Scrambler
- Diavel
- Monster
- Hypermotard
- Multistrada
- Streetfighter
- Panigale
- SuperSport

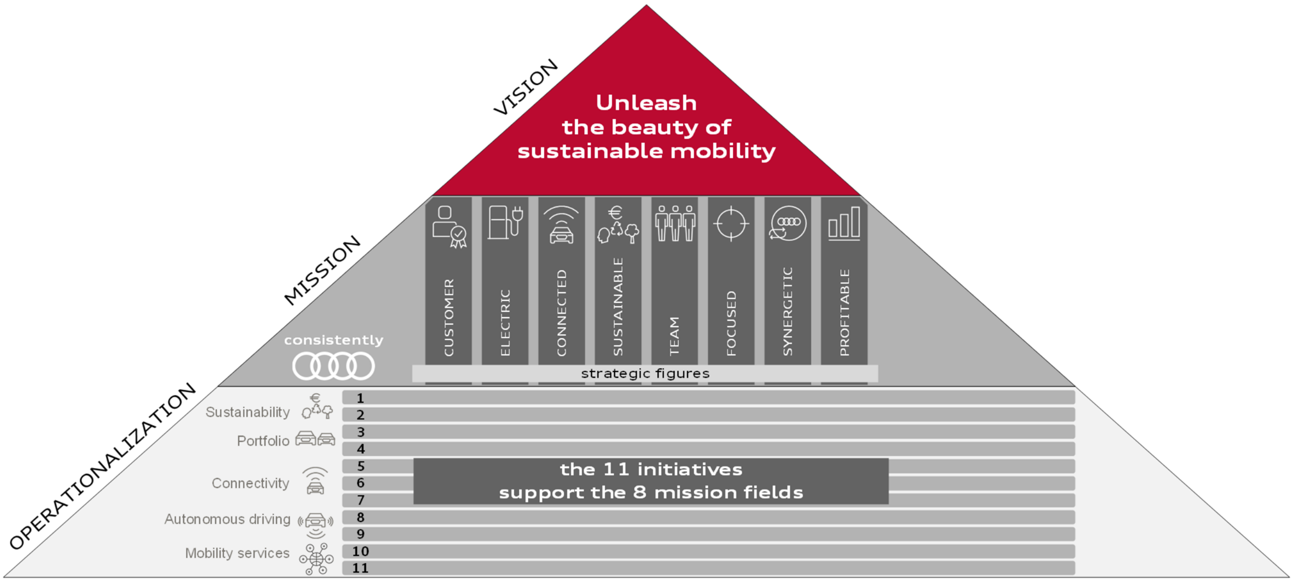
Aurangabad/India
ŠKODA AUTO India Private Ltd.
- A3 Sedan
- Q3
- A4 Sedan
- Q5
- A6 Sedan
- Q7

Amphur Pluakdaeng/Thailand
Ducati Motor (Thailand) Co., Ltd.
- Scrambler
- Diavel
- Monster
- Hypermotard
- Multistrada
- Streetfighter
- Panigale
- SuperSport

[1] fully electric vehicle
[2] plug-in hybrid drive

STRATEGY

With our "consistently Audi" strategy communicated in the year under review of 2019, we want to make a major contribution to the transformation into a new age of mobility. We are addressing current and future challenges confidently and with an eye to the opportunities they bring, and at the same time are supporting implementation of the Volkswagen Group strategy "TOGETHER 2025+."



/ VISION: UNLEASH THE BEAUTY OF SUSTAINABLE MOBILITY

The fundamental transformation of the automotive industry is prompting far-reaching changes in the market for mobility. Awareness of climate change has increased sharply throughout society and among policymakers. The Volkswagen Group has committed itself to the goals of the Paris Climate Agreement and wants to achieve net-zero carbon emissions by 2050. This means our future is becoming electric and the car one aspect of an increasingly broad mobility offering. Our goal is to place Audi at the forefront of the changes that will create this new form of mobility. Our vision is: "Unleash the beauty of sustainable mobility."

For Audi, "beauty" as a vision means:

- We want to offer emotional exterior and interior design for our models. Especially the interior will become appreciably more important in the future, in light of the growing automation of driving functions. Our customers will spend more time in the vehicles, without actually driving themselves.
- As the most progressive brand in the premium segment, we will offer our customers a seamless and personal customer experience at all relevant points of contact.
- We will continue to develop Audi into the brand with the greatest appeal, fascinating customer-relevant innovations and breathtaking design.

For Audi, "sustainable mobility" as a vision means:

- We will offer carbon-neutral premium mobility in the long term.
- We will offer the strongest lineup of electric models among premium competitors in the medium term.
- This will enable us to significantly improve our ecological footprint.
- We will make a contribution to the Volkswagen Group decarbonization goal, to reduce the CO_2 footprint of the vehicle fleet by 30 percent by the year 2025.
- By 2050, we as a company will achieve net-zero carbon emissions.

/ *MISSION: CONSISTENTLY AUDI*

We act purposefully, systematically and with full effort – in other words, consistently. We have therefore entitled our mission “consistently Audi.”

/ *GOALS AND FIGURES OF THE AUDI STRATEGY*

To accomplish our mission, we want to act consistently on WHAT we do – along the mission fields of consistently customer, electric, connected and sustainable. We also want to act consistently in HOW we do that – we consistently strengthen our team, are consistently focused, consistently utilize synergies and are consistently profitable. The WHAT and the HOW result in our eight mission fields.

To help us measure continuously and transparently how we are implementing our strategy, we have identified strategic figures for the eight mission fields. As we operationalize “consistently Audi,” we are gradually elaborating the figures and anchoring them in the Company. We will use ongoing checks of the actual figures to measure and manage the implementation of our strategy. Excerpts of the strategic figures for the individual mission fields are given below.

// *CONSISTENTLY CUSTOMER*

Audi wants to become the company with the most satisfied customers. We will therefore increasingly integrate the customer consistently and from the outset into defining our products and services. This approach will enable us to meet the wishes of our customers as effectively as possible in terms of our portfolio and services. We will offer our customers a seamless and personal customer experience at all points of contact.

To that end, we strive for the highest customer satisfaction and recommendation rate of any competitor. We will quantify these using the strategic figure “net promoter score.”

// *CONSISTENTLY ELECTRIC*

We want to take the lead in the transition to electric mobility. That means we want to offer our customers the best electric portfolio for vehicle characteristics, design, customer experience and innovations compared with our premium competitors. Our electric portfolio comprises fully electric vehicles (battery electric vehicles (BEV)), partially electric vehicles (plug-in hybrid electric vehicles (PHEV)) as well as vehicles with fuel cell technology (fuel cell electric vehicles (FCEV)). We also regard the latter as an attractive technological proposition for our premium customers. In addition, for the utilization phase of electric vehicles we are developing innovative and customer-relevant options relating to the topics of charging and energy supply.

To achieve the goal of “consistently electric” we are seeking to increase our NEV (new energy vehicle) share. This figure is obtained by considering all Audi BEV, PHEV and FCEV vehicles manufactured as a proportion of the total Audi vehicles built. In the 2019 fiscal year, Audi had an NEV share of 3.5 percent. Based on the current market forecasts, we have set ourselves a target NEV share of around 40 percent for 2025. To achieve this, we will expand our electric portfolio to around 30 models by 2025, around 20 of which will be fully electric models. In addition, around 50 percent of our marketing budget will be channeled into our e-tron campaigns in the 2020 fiscal year in order to get our customers enthusiastic about electric driving.

Read more about the ***NEV share*** *on* ***pages 46 f.***

// *CONSISTENTLY CONNECTED*

We want to create an open, digital ecosystem. To that end we are developing a range of data-based business models with clear added value for the customer. These can be grouped according to the following three application cases: “I’m looking for an Audi,” “I use an Audi” and “I want to be mobile.” For each of these areas, we are developing digitalized user journeys along with the business models required. We are also proposing a differentiated mobility offering with selected services for private and fleet customers. At the vehicle end, we are developing a competitive portfolio of autonomous driving functions.

The strategic figure for the mission field “consistently connected” is the connected vehicle share. We use this figure to measure the share of our connected vehicles – the target for 2025 is a connected vehicle share of 100 percent. We are also increasing the customer base in the area of mobility and will make a significant contribution to Audi Group revenue through our digital offerings and mobility services. Compared to the competition, we want to offer our customers the best user experience (UX).

// *CONSISTENTLY SUSTAINABLE*

We want to operate responsibly, transparently and with integrity. We act in harmony with ecology and economy, with a clear long-term perspective. For us, carbon-neutral mobility is therefore the essential basis for further growth. To achieve this, we are making our production network consistently sustainable: By 2025, our goal is to achieve net-zero carbon emissions for all Audi plants. For example, we are gradually introducing green electricity at all Audi plants, using closed water cycles and specifically reusing resources.

The success of "consistently sustainable" is measured using the decarbonization index (DCI), among other things. The DCI quantifies the average emissions of CO_2 and CO_2 equivalents (collectively CO_2e) throughout the entire life cycle of the vehicle portfolio and is expressed in metric tons per vehicle.

*Read more about the **DCI** on **pages 46 ff.***

Finally, integrity and compliance form the basis of our sustainable economic success. Activities in this area include the Volkswagen Group-wide program "Together4Integrity." We understand integrity as responsible business activity, based on society's accepted values and principles that we live. For us, compliance means observing legal provisions as well as internal company policies, rules and standards. We do so on the basis of the Code of Conduct that we have introduced.

*Read more about **integrity and compliance** on **pages 60 ff.***

// *CONSISTENTLY TEAM*

WE not ME – that is the Audi spirit. We want to become more agile and pursue goals that are clear, attainable but ambitious. This has inspired us to dismantle hierarchies and extensively transfer decision-making competence to where specialist expertise lies. This change of culture is decisive for the future of Audi. But a change of culture cannot be imposed from above – we have therefore set ourselves the goal of fundamentally changing our culture and behavior together.

// *CONSISTENTLY FOCUSED*

We concentrate resources on our key products – we are reducing complexity and focusing on the essentials. This includes leaving things out: We are therefore scrutinizing our projects to free up the resources required for future projects. Leaving out also means systematically pulling out of areas that do not support our strategy, such as shared micro-mobility, or leaving them to other Volkswagen Group brands.

// *CONSISTENTLY SYNERGETIC*

We enter into partnerships inside and outside our Group. This enables us to use economies of scale and increase the speed with which we can implement future topics that are critical to our success. To this end, we are especially increasing synergies within the Volkswagen Group. We will continue to step up our use of Group synergies above all in areas such as technological development for autonomous driving, or the development and use of a uniform data platform to improve connectivity and further electrify our models. We have made major advances in this direction with the Premium Platform Electric (PPE) and the modular electric drive matrix (MEB), for example, as well as the newly established Car.Software organization, which brings together the entire vehicle software activities of the Volkswagen Group.

// *CONSISTENTLY PROFITABLE*

We want to operate sustainably and profitably in every respect. Because only sustainable profitability gives us the freedom to make necessary investment in the future. In the medium-term, we are thus targeting an operating return on sales of between 9 and 11 percent. The Audi Transformation Plan (ATP) in particular will help achieve this. With the ATP, we are positioning Audi for the future both financially and structurally.

To get our priorities right in terms of our strategy, we already look at factors such as the return on investment (ROI) including CO_2 effect when deciding on our vehicle projects. We thus take account of the requirements for meeting CO_2 legislation when we allocate capital. At corporate level, we have set ourselves the strategic goal of a return on investment (ROI) in excess of 21 percent.

/ INTERLINKING WITH THE VOLKSWAGEN GROUP STRATEGY "TOGETHER 2025+"

Our "consistently Audi" strategy is coordinated with the Volkswagen Group strategy "TOGETHER 2025+." In implementing the Audi strategy, we are therefore also helping to achieve the Volkswagen vision "Shaping mobility – for generations to come."

To measure how far the Volkswagen Group strategy has been implemented, Volkswagen has defined strategic figures for the four target dimensions across the Group. For the target dimension "Excited customers," the loyalty rate, the conquest rate as well as customer satisfaction and quality have been defined as strategic figures. The target dimension "Excellent employer" is measured using internal and external employer attractiveness as well as the diversity index. For "Role model for environment, safety and integrity," the decarbonization index (DCI), CO_2 fleet emissions as well as compliance, a culture of dealing openly with mistakes and integrity are the strategic key figures to which reference is made. The target dimension "Competitive profitability" is measured using the strategic financial figures stated in the table below. There is already a uniform definition across the Volkswagen Group for the figures for the target dimension "Competitive profitability," with targets specified for each brand. As the Group strategy still has to be specified in detail, the content of the remaining strategic figures is still being finalized.

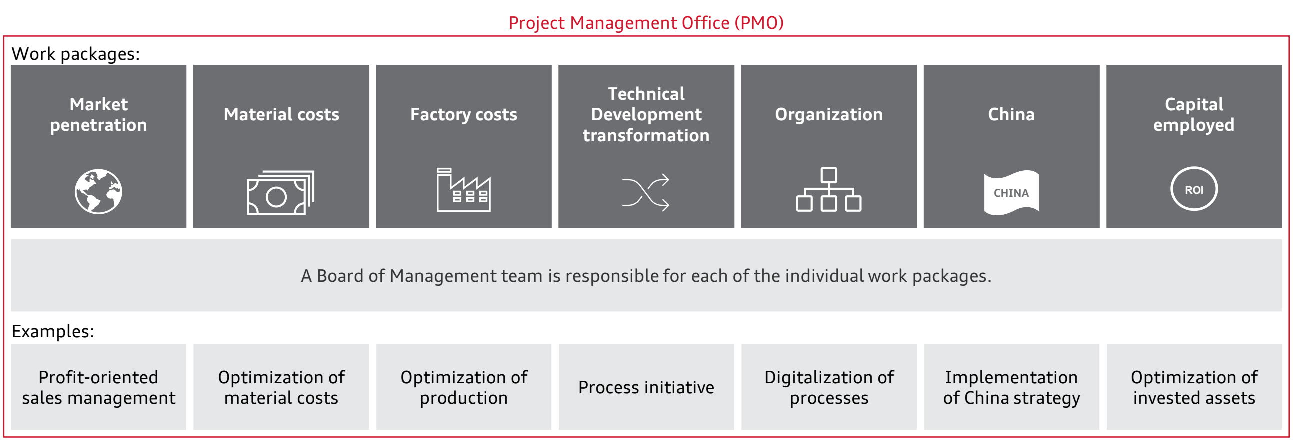
Strategic financial figures of the Audi Group

	Goal 2025
Operating return on sales in %	9–11
Research and development ratio in %	5–6
Ratio of capex in %	5–6
Return on investment (ROI) in %	> 21

/ OPERATIONALIZING THE STRATEGY

The strategy including the current assumptions is reviewed at the annual "Strategy Summit" and refined as necessary. The specific Company-wide "consistently initiatives" for operationalizing our strategy are also identified at the summit and incorporated into the planning round. A "Target Summit" is also held twice a year. The "consistently initiatives" and transformation projects prioritized at the "Strategy Summit" are allocated budgets and resources, and synchronized with the corporate planning.
The 11 "consistently initiatives" ensure that our strategy is operationalized. End-to-end responsibilities are defined for each of these initiatives. Two-weekly monitoring at the Audi Executive Committee – the body in charge of operational corporate management – ensures that the targets are pursued systematically.

/ AUDI TRANSFORMATION PLAN AS THE BASIS FOR IMPLEMENTING THE STRATEGY



A solid financial basis is indispensable for implementing our strategy. We guarantee precisely this financial basis with the Audi Transformation Plan (ATP) which was successfully launched in the 2018 fiscal year. This means that even in the transformation phase, we are able to maintain our profitability targets and finance our future investments from our own resources. By the end of 2022, we want to leverage around EUR 15 billion in efficiency measures with the ATP. The ATP with its seven work packages addresses both the performance side and our cost structures. The work package “Capital employed” furthermore promotes the optimized use of our capital.

A Board of Management team heads up each work package. In the individual work packages, the heads of module supervise development and implementation of the measures. A Project Management Office (PMO) has overall responsibility for managing implementation of the ATP.

Measures worth around EUR 2.5 billion in terms of revenue and costs were implemented in the whole of 2019. To a significant degree, these directly affect operating profit. The focus in the year under review was especially on overarching areas of potential, as well as on material and production costs.

Overall, since the start of the program we have generated a cumulative amount of around EUR 4.4 billion. In addition, decisions affecting the bulk of measures that will take effect in future years have already been reached. For example, around 80 percent of all measures required have already been identified.

In November 2019, we reached fundamental agreements on structural matters with the employee representatives as part of the “Audi.Zukunft” pact. Certain areas of this agreement will also support our ATP goals. In addition, “Audi.Zukunft” will help to protect our Company’s long-term competitiveness.

*Read more about **“Audi.Zukunft”** on **pages 52 f.***

*Read more online about our **strategy** at **www.audi.com/executive-summary**.*

MANAGEMENT SYSTEM

In addition to our strategic figures, we use further central indicators to manage and monitor the Audi Group. The key performance indicators for Audi serve as the principal figures in our management system. These are made up of financial and non-financial performance indicators. The remuneration of the Board of Management and management personnel is linked to the management system.

The current internal management process as well as the present key performance indicators of the Audi Group are described in the following.

/ *MANAGEMENT PROCESS IN THE AUDI GROUP*

The Audi Group is integrated into the management process of the Volkswagen Group. Management of the Audi Group encompasses AUDI AG and the consolidated companies, which is why there is no separate management and forecast of the key performance indicators for AUDI AG. Appropriate account is taken of the complex value chains and organizational structures as well as the legal requirements.

The starting point for the management of the Audi Group is the long-term strategic planning prepared every year for a period of ten years, as well as the medium-term planning derived from this for a five-year period. Since the year under review, the handling of this strategy has been entrusted to two new committees. The “Strategy Summit” examines strategic goals and embeds them in the ten-year planning. The resources required for this are detailed in the medium-term planning within the scope of the “Target Summit.”

In order to shape the future of our Company proactively, the individual planning topics are defined on the basis of their time horizons:

- The product range determines the strategic, long-term corporate direction.
- The long-term sales plan, which highlights market and segment trends, is the starting point for identifying the volume of deliveries.
- Planning for the individual production sites is based on the capacity and utilization plan.

The coordinated results of the upstream planning processes are fed into the financial medium-term planning. This includes investment planning, financial planning of the income statement as well as financial and balance sheet planning. Various scenarios and sensitivities for key influencing factors, such as exchange rate, volume and mix effects, are also considered.

A binding budget is derived from the first year of the medium-term planning and is detailed for operations on a month-by-month basis. The level of budgetary target attainment is tracked and reviewed each month with the help of various management tools such as target/actual analyses, year-on-year comparisons and deviation analyses. In addition, since the fourth quarter of the 2019 fiscal year the key figures have also been reported weekly to the Board of Management. If necessary, action plans are developed and implemented to back up the budgeted objectives. Each month, detailed advance estimates are drawn up on a rolling basis for the next three months and also the full year. These take account of the prevailing opportunity and risk position. Continuously adapting to internal and external changes is therefore of central importance for management during the year. This current assessment feeds into the subsequent ten-year planning as well as into the medium-term and budget planning.

/ KEY PERFORMANCE INDICATORS OF GROUP MANAGEMENT

The basis for the management of the Audi Group is a value-oriented corporate management approach in combination with the following key performance indicators, which are important drivers of our corporate development and support the goals of our strategy:

- Deliveries to customers of the Audi brand
- Revenue
- Operating profit/operating return on sales
- Return on investment (ROI)
- Net cash flow
- Research and development ratio
- Ratio of capex

The non-financial indicator of deliveries to customers reflects the number of new vehicles of the Audi brand handed over to customers. This performance indicator reflects demand from customers for our products and reveals our competitive and image position in the various markets worldwide. Strong demand for our products has a major impact on production, and consequently also on the capacity utilization of our sites and the deployment of our workforce. In addition, a continuing high level of vehicle deliveries reflects high customer satisfaction.

The financial key performance indicators include Audi Group revenue, which is a financial reflection of our market success.

Another key performance indicator is the operating profit of the Audi Group. This key figure represents the economic performance of our core business as well as the economic performance of our fundamental operational activity, and is defined as follows:

Revenue
– Cost of goods sold
– Distribution costs
– Administrative expenses
+ Other operating income
– Other operating expenses
= Operating profit

Our financial key performance indicators also include the operating return on sales of the Audi Group:

$$\textbf{Operating return on sales} = \frac{\text{Operating profit}}{\text{Revenue}}$$

A further key performance indicator is return on investment (ROI). This reflects how effective our business activities are, by considering the return achieved on the capital employed over a given period. Return on investment already takes account of CO_2 compliance measures and can therefore also be understood as return on investment after CO_2.

$$\textbf{Return on investment (ROI)} = \frac{\text{Operating profit after tax}}{\text{Average invested assets}}$$

A standardized average tax rate for the Volkswagen Group of 30 percent is assumed for operating profit after tax. Invested assets are calculated from the asset items on the balance sheet that serve the core business purpose (intangible assets, property, plant and equipment, leasing and rental assets, investment property, inventories and receivables) less non-interest-bearing liabilities (trade payables and advance payments). The average of the value of invested assets at the start and the value of the invested assets at the end of the fiscal year is then taken. If return on investment (ROI) exceeds our minimum rate of return, the value of the Company has increased. Likewise for our internal allocation of resources, we consider the return on investment after CO_2 for our vehicle projects.

Net cash flow, which serves as a benchmark of the Audi Group's level of self-financing, is calculated as follows:

Cash flow from operating activities
– Investing activities attributable to operating activities
= Net cash flow

The research and development ratio expresses Audi's innovative strength and also ensures that it maintains competitive cost structures.

Research and development ratio

$$= \frac{\text{Research and development activities}}{\text{Revenue}}$$

The ratio of capex is another indicator of the Audi Group's competitiveness.

Ratio of capex

$$= \frac{\text{Capex according to the cash flow statement}}{\text{Revenue}}$$

Capex includes investments in property, plant and equipment, investment property and other intangible assets according to the cash flow statement.
Here, capital investment in essence comprises financial resources for modernizing and expanding our range of products and services, for optimizing our capacities and for improving the Audi Group's production processes.
Investment decisions are requested by the specialist areas, then scrutinized and prioritized by Investment Controlling and the "Investment Group" corporate committee. Major decisions affecting investment policy are also approved by the Company's Supervisory Board.

*Read more about our **key performance indicators** on **pages 20 ff., 23 ff., 30 ff. and 35 ff.***

Alongside the Audi key performance indicators, we have defined strategic figures for the Company in pursuit of our "consistently Audi" strategy.

*Read more about the **strategic figures** of the Audi Group on **pages 14 ff.***

*Read more about our **non-financial figures** in connection with sustainability and ESG aspects on **pages 45 ff.***

SHARES

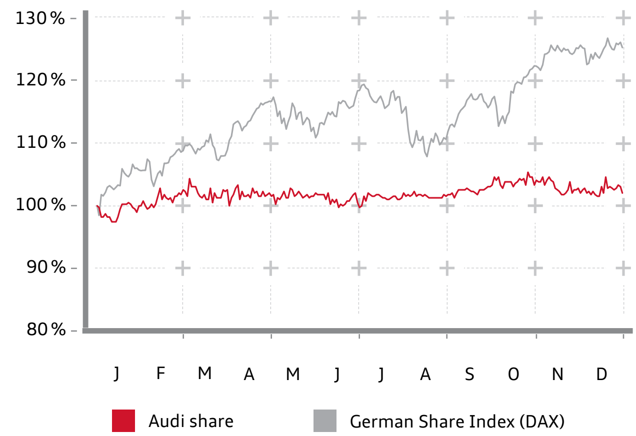
/ *AUDI TRADING PRICE TREND*

The German Share Index (DAX) showed a clearly positive overall development in 2019. The trading prices of German car manufacturers and suppliers listed in the DAX likewise rose for the most part, amid a volatile environment. Many automotive manufacturers and suppliers experienced economic strain in 2019, as evidenced by various ad hoc announcements on profit warnings. Such publicity will undoubtedly have dampened trading prices for the players concerned. The shares of the premium car manufacturer Audi are listed in the General Standard stock exchange segment and, in a reflection of the low free float of around 0.36 percent, have a comparatively low trading volume. Audi shares did not mirror the market trend and drifted sideways overall in the past fiscal year.

On the first day of trading in 2019, Audi shares closed at EUR 784, shortly thereafter touching a year-low of EUR 764 on January 11, 2019. Over the subsequent months the trading price trended sideways, reaching a year-high of EUR 826 on October 23, 2019. The trading price of Audi shares thereafter dipped slightly, then again trended sideways until the end of the year. Industry-specific negative factors such as the trade dispute between the United States and China, uncertainty surrounding the United Kingdom's exit from the European Union and the high upfront expenditures required for the automotive industry's transformation are likely to have had a negative impact on the trading price. Automotive shares as a whole remain undervalued on the stock markets compared to other sectors because investors are currently tending to show more restraint due to the transformation of the automotive industry.

Audi shares closed on the last day trading for 2019 at EUR 800, – 2.0 percent up on the price at the start of the year.

Indexed Audi trading price trend in 2019 (ISIN: DE0006757008, stock exchange: Xetra)



*Read more about **Audi shares** at **www.audi.com/shares** and in the **notes** under **note 12**.*

ECONOMIC REPORT

Amid a challenging environment and continued high upfront expenditure for new technologies, the Audi Group took decisive action on its future in 2019. We launched the first fully electric Audi vehicle on the market, the Audi e-tron. Deliveries of the Audi brand climbed 1.8 percent to 1,845,573 cars, with our most important market China setting a new record.

BUSINESS AND UNDERLYING SITUATION

/ GLOBAL ECONOMIC SITUATION [1)]

Global economic growth amounted to 2.6 (3.2) percent in 2019, with the rate of growth slowing as the year progressed. Economic dynamism both in advanced economies and in emerging countries was below the level of the previous year. Economic development was influenced especially by an increase in trade disputes worldwide and by the more unsettling effect this had on the financial markets.

In Western Europe, the growth rate for gross domestic product (GDP) reached 1.2 (1.8) percent in the period under review. Economic growth in almost all Western European countries was down on the prior-year period. Sources of uncertainty included particularly the ongoing negotiations on the exit of the United Kingdom from the European Union (EU). In Germany, the region's largest national economy, GDP grew by 0.5 (1.5) percent based on healthy levels of employment, despite the dwindling rate of growth.

The Central and Eastern Europe region equally saw lower economic growth of 2.3 (3.3) percent. Economic output especially in Russia experienced a reversal from the previous year with GDP growth of 1.1 (2.2) percent – this was mainly attributable to year-on-year falls in commodity prices.

The United States saw its growth rate for economic output fall to 2.3 (2.9) percent in the year under review. The economy was supported mainly by positive consumer demand and fiscal measures.

Brazil's GDP grew by 1.1 (1.3) percent in the period under review. The situation in South America's largest national economy remained tense, with political uncertainty also playing a role.

The Asia-Pacific region again returned the highest growth rates worldwide. The Chinese economy achieved a GDP growth rate of 6.2 (6.6) percent – again a high growth in economic output in international terms – despite trade disputes with the United States. Fiscal measures had a stimulating impact on the Chinese economy. Meanwhile Japan's GDP improved by 1.1 (0.3) percent.

/ INTERNATIONAL CAR MARKET [1)]

Worldwide demand for cars amounting to 79.6 (82.9) million vehicles in 2019 was down –4.0 percent on the prior-year level. While new registrations in the Western Europe as well as Central and Eastern Europe regions were up, the sales figures in the North America, South America and Asia-Pacific regions went into retreat. The industry-specific and market-specific framework conditions were influenced by fiscal measures that played a major part in the mixed development in new registrations across markets in the past fiscal year. Depending on region, the industry saw everything from tax cuts to tax increases, incentive programs, buyer's premiums and import duties. Non-tariff barriers such as additional certification requirements to protect the domestic automotive industry in various countries had a negative impact on the worldwide sales figures.

1) The prior-year figures may have changed as a result of updated data.

Despite declining economic activity, the Western European car market was approximately at the previous year's level with 14.4 (14.4) million vehicles sold, a change of 0.6 percent. The region's individual markets had mixed fortunes. In Germany, new registrations came to 3.6 (3.4) million cars – a positive change of 5.0 percent compared with the prior-year level. The car markets in France and Italy also bettered the prior-year levels with gains of 1.6 and 0.3 percent respectively. New registrations in the United Kingdom showed a fall of –2.4 percent, reflecting among other things the uncertainty created by the unclear outcome to the United Kingdom's exit negotiations with the EU. Mainly due to a lack of consumer confidence, the Spanish car market declined significantly by –4.7 percent.

New registrations of vehicles in Central and Eastern Europe were 2.7 percent up on the previous year, at 3.6 (3.5) million cars. The individual markets developed at varying rates. The Polish automotive market, for example, grew by 4.4 percent. On the other hand, sales of cars in Russia fell by –2.2 percent in the year under review. This follows pull-forward consumer behavior in the previous year due to an increase in value-added tax from January 1, 2019.

From January through December 2019, the U.S. market for passenger cars and light commercial vehicles, the largest passenger car market in North America, saw 17.0 (17.3) million units newly registered – equivalent to a rate of change of –1.6 percent. Demand continued to shift towards light trucks such as SUV and pick-up models, while the classic passenger car segments contracted.

In Brazil, South America's largest market for passenger cars and light commercial vehicles, the previous year's volume was increased by 7.7 percent to 2.7 (2.5) million units.

In the Asia-Pacific region, the car market contracted substantially by –6.0 percent to 34.0 (36.2) million units in the period under review. The –6.4 percent drop in demand in China, the world's biggest car market, to 21.3 (22.8) million units was the main reason. The ongoing trade dispute between China and the United States in particular made Chinese consumers reluctant to spend. The Japanese car market likewise showed a negative development compared with the prior-year period. Sales of cars were down –2.4 percent on the previous year, at 4.3 (4.4) million units.

/ INTERNATIONAL MOTORCYCLE MARKET

In 2019, worldwide registrations of new motorcycles in the displacement segment above 500 cc increased by 1.4 percent. The individual markets presented a mixed picture. While the motorcycle market in Western Europe achieved 6.5 percent growth, the number of newly registered motorcycles in the United States – the world's largest motorcycle market – declined by –6.5 percent.

/ MANAGEMENT'S OVERALL ASSESSMENT

// COURSE OF BUSINESS

In the 2019 fiscal year, the Audi Group took further strategic decisions on the future direction of the Company, while business operations were impacted by a large number of challenges on car markets worldwide.

One area of focus in the year under review was the introduction of our new "consistently Audi" strategy. Eight mission fields were defined, four of which – consistently customer, electric, connected and sustainable – describe our goals. The remaining four fields define HOW we intend to achieve those declared goals: consistently focused, synergetic, profitable and with the team as the mainstay.

*Read more about our **strategic goals** on **pages 12 ff.***

The market introduction of the Audi e-tron, the first fully electric model from Audi, in the first quarter of 2019 means that the Company's focus on electric mobility is now also noticeable for our customers. Deliveries of the Audi e-tron in 2019 already exceeded 26,000 units. The fully electric Audi Q2 L e-tron for the Chinese market that appeared later on in the year as well as the Audi e-tron Sportback are the next steps in our electric initiative – with many more models to follow. We also brought several new plug-in hybrid models onto the markets.

As part of the Company's repositioning, in its planning Audi has further intensified its upfront expenditure for electric mobility. In the year under review it was resolved to spend a total of EUR 37 billion on research and development activities and capex over the coming five years, of which EUR 12 billion will be set aside for electric mobility.

Other major features of the 2019 fiscal year were important programs and decisions to safeguard the long-term profitability and competitiveness of the Audi Group. One such key instrument is the Audi Transformation Plan (ATP) launched in 2018 with a view to maintaining our future profitability and raising EUR 15 billion through efficiency measures by the year 2022. This far-reaching program of measures provides the financial basis for implementing our strategy – alongside reallocating resources to future areas, Audi is using it to optimize costs, tap fresh income potential and reduce complexity. In the period under review alone, measures worth around EUR 2.5 billion in terms of profit and costs were implemented, to a large extent with a direct impact on operating profit. This means the ATP has already contributed a cumulative total of around EUR 4.4 billion since its launch.
In addition, we have reached an important agreement with the employees' elected representatives on the long-term focus of the Company. The fundamental agreement that forms part of "Audi.Zukunft" mainly involves optimizing production capacities at the German sites and making socially responsible adjustments to the number of jobs along the demographic curve, while providing an extended job guarantee up until the end of 2029. This will boost profit by a total of around EUR 6 billion by 2029, allowing the financial resources freed up to be channeled into future areas such as electrification and digitalization. In this way, "Audi.Zukunft" will strengthen the competitiveness of the Four Rings for the coming years.
There was also a new appointment to the Board of Management of AUDI AG in the 2019 fiscal year. Hildegard Wortmann assumed responsibility for the Marketing and Sales division on the Board of Management with effect from July 1, 2019. This position had previously been held temporarily by Abraham Schot in addition to his regular duties.

Operating activities were held back above all by the muted overall economic situation, including among other factors the continuing trade conflict between the United States and China as well as the uncertainty surrounding the United Kingdom's exit from the European Union. The major challenges involved in future-proofing business models plus declining overall market demand prompted many enterprises in the automotive and supply industry to introduce or step up efficiency programs in 2019. At the start of 2019, the Audi Group had to absorb knock-on effects from switching our entire model portfolio to the new WLTP test cycle. Preparations for its second phase starting on September 1, 2019, equally impacted availability of our models. We also introduced a large number of new models in the 2019 fiscal year. After a somewhat weaker first half, Audi was able to report a rebound in delivery figures in the second half of the year, aided by improved model availability among other factors. Overall, the financial performance of the Audi Group in the 2019 fiscal year showed a slight improvement on 2018, amid a difficult market environment. The change was partly attributable to the previous year's high level of special items in connection with the diesel issue. In the 2019 fiscal year, the effects on earnings in connection with the diesel issue were of lesser importance overall when compared with the amounts reported as special items in the previous year.

Despite the challenging general market situation presented above and the temporarily restricted range of models, we delivered 1,845,573 (1,812,485) cars of the Audi brand to customers and therefore 1.8 percent more than in the previous year. At the start of the year we had anticipated that deliveries to customers of the Audi brand would be moderately up on the prior-year level. We adjusted this forecast in our Third Quarter Report 2019 in line with the challenging worldwide market situation and have since anticipated a slight increase only.

The revenue of the Audi Group totaled EUR 55,680 (59,248) million. The prior-year figure still includes the multi-brand sales companies deconsolidated as of January 1, 2019, which impacted revenue in the prior-year period by a total of EUR 5.6 billion. To facilitate comparison, the basis for the forecast for the 2019 fiscal year was already adjusted in the 2018 Annual Report. Based on the adjusted revenue figure, we achieved the planned slight increase in revenue of the Audi Group for 2019 as a whole.

The Audi Group generated an operating profit amounting to EUR 4,509 (3,529) million in the 2019 fiscal year, representing an operating return on sales of 8.1 (6.0) percent. It is important to note that the prior-year figure includes special items in the amount of EUR –1,176 million, mainly from the fine under the administrative order on the regulatory offense proceedings conducted by the Munich II public prosecutor against AUDI AG that were completed in October 2018. In the 2019 fiscal year, the effects on earnings in connection with the diesel issue were of lesser importance overall when compared with the amounts reported as special items in the previous year. The successful ATP and our profitable SUV models such as the Audi Q8 and the Lamborghini Urus Super SUV provided a positive impetus. There was pressure on our figures from high upfront expenditure for future mobility solutions and new technologies, for example, but also from increased personnel costs. In the 2018 Annual Report we had envisaged an operating return on sales of between 7.0 and 8.5 percent for 2019, and therefore met our forecast.

The return on investment (ROI) reached 12.7 (10.0) percent and thus exceeded our minimum rate of return of 9 percent. The higher operating profit after tax in particular had a positive effect on this key figure compared with the previous year. In the 2018 Annual Report we had forecast an ROI of between 11 and 14 percent for 2019.

The Audi Group achieved a net cash flow of EUR 3,160 (2,141) million in the past fiscal year. In our forecast we had still anticipated a net cash flow of between EUR 2.5 and 3.0 billion.

The research and development ratio of the Audi Group reached a figure of 7.9 (7.1) percent and was therefore moderately above the strategic target corridor of 6.5 to 7.0 percent in keeping with our forecast updated in the 2019 Interim Financial Report. In the 2018 Annual Report we had still anticipated a research and development ratio slightly above the strategic target corridor.

Thanks to our investment discipline, we were able to reduce the ratio of capex in the 2019 fiscal year to 4.9 (5.9) percent. This was therefore slightly below the previous target corridor of 5.5 to 6.0 percent and therefore in the range of our forecast, which was also updated in the 2019 Interim Financial Report. In the 2018 Annual Report we had anticipated that the ratio of capex for 2019 would be within the target corridor.

Forecast/actual comparison Audi Group

	Actual 2018	Basis for the forecast 2018 [1]	Forecast for 2019 [2]	Adjustment to forecast during the year	**Actual 2019**
Deliveries of cars of the Audi brand to customers [3]	1,812,485	1,812,485	moderately above the previous year's level	slightly above the previous year's level [4]	**1,845,573**
Revenue in EUR million	59,248	53,617	slight increase		**55,680**
Operating profit in EUR million	3,529	6.6	between 7.0 and 8.5 percent and therefore not yet within our strategic target corridor of 9 to 11 percent		**4,509**
Operating return on sales in %	6.0				**8.1**
Return on investment (ROI) in %	10.0	10.4	between 11 and 14 percent and therefore above our minimum rate of return of 9 percent		**12.7**
Net cash flow in EUR million	2,141	2,080	between EUR 2.5 and 3.0 billion		**3,160**
Research and development ratio in %	7.1	7.8	slightly above the strategic target corridor of 6.5 to 7.0 percent	moderately above the strategic target corridor of 6.5 to 7.0 percent [5]	**7.9**
Ratio of capex in %	5.9	6.5	within the strategic target corridor of 5.5 to 6.0 percent	slightly below the strategic target corridor of 5.5 to 6.0 percent [5]	**4.9**

1) Calculation of the adjusted figures: The figures reported in the 2018 consolidated financial statements have been adjusted for the respective effects of the multi-brand sales companies (Audi Volkswagen Korea Ltd., Seoul (South Korea), Audi Volkswagen Middle East FZE, Dubai (United Arab Emirates), Audi Volkswagen Taiwan Co., Ltd., Taipei, and Volkswagen Group Italia S.p.A., Verona (Italy)).
2) The 2019 forecasts were based on the target corridors applicable in the 2019 fiscal year.
3) This includes delivered Audi models built locally by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China).
4) Updated in the Third Quarter Report 2019
5) Updated in the Interim Financial Report 2019

RESEARCH AND DEVELOPMENT

We are shaping the transformation into a new age of mobility with our new strategy "consistently Audi." We want to spearhead change and be a pioneer of carbon-neutral mobility in the premium segment. It will require huge upfront spending to achieve our strategic goals. For the period 2020 to 2024, we thus envisage research and development activities as well as capex amounting to some EUR 37 billion. Current plans reflect a considerable improvement in investment and cost discipline along with a strong bias towards investing in electric mobility – of the total of around EUR 37 billion, EUR 12 billion is earmarked for electric mobility.

/ *EFFICIENT PROCESSES AND SYNERGIES*

Competitive cost structures and a clear target vision for the Research and Development area are essential to Audi's long-term success and its successful transformation in the direction of profitable electric mobility. We already completed the groundwork for this with the transformation in the Research and Development area that was initiated in the 2017 fiscal year – we are therefore positioning ourselves consistently in this area for the new age of mobility. Based on the new Audi strategy, we fine-tuned our target vision for this area in the year under review.

Efficient processes as well as the clear planning, allocation and management of both human and financial resources are the basis of competitive cost structures. To achieve our strategic and financial goals, we consistently define the priorities for our development projects according to these aspects. The financial framework is defined within the Audi Group taking the research and development ratio as the strategic target corridor and key performance indicator. In particular because we will make even more intensive use of Group synergies in the future, we have set ourselves a long-term strategic target corridor of between 5 and 6 percent for this ratio. For the 2019 fiscal year, this target corridor was still in the range of 6.5 to 7.0 percent.

As part of the transformation in the Research and Development area, we are also making our organization and processes future-proof. We always focus here on what customers require of our products and services. It is therefore less about individual components and more about the functions that our customers require. We want this systems engineering approach to enable us to create a framework for delivering what our customers want, and to take an integrated, synergetic approach to our organization and processes. Combined with consistent functional orientation, we are therefore able to achieve an optimum balance of the individual automotive components and functions. We consider both the technical and economic aspects of developing a function that will meet the user needs of our customers.

We also want to draw more deeply on synergies in the Volkswagen Group and work efficiently across the brands in a development alliance. Experts are forging closer ties with each other, increasingly sharing their knowledge and collaborating as partners. One example of how synergy potential has already been used is the collaboration between Audi and Dr. Ing. h.c. F. Porsche AG, Stuttgart, on the electrification of both brands' product portfolios. The result is a jointly used platform for the Porsche Taycan and our Audi e-tron GT. We are also pooling our resources with our sister brand in the joint development of vehicle architectures, modules and components in what is known as the Premium Platform Electric (PPE). In the smaller vehicle segments, we collaborate with the Volkswagen Passenger Cars brand on the basis of the modular electric drive matrix (MEB).

In the future, alongside the platform synergies already in use, we want to make more intensive use of Group-wide synergies. We will focus on an efficient development alliance across the brands, based around a tight network of experts within the Volkswagen Group, cooperation on equal terms, an innovative working environment and pooled development activities. In this way we want to unlock synergies Group-wide. The development alliance within the Volkswagen Group will be pivotal to driving change and reinforcing the future viability of the Group and all its brands.

In the vehicle development area, we are working intensively with the other brands to leverage synergies. One goal of the development alliance's joint strategy, for example, is to boost our long-term competitiveness and future viability by using resources more effectively and efficiently in the research and development of new mobility-related technologies, products and services. In the Group-wide development alliance, the brands therefore do not only work with, but also for each other on key technologies and form cross-brand expertise networks for future topics. For example, within the Volkswagen Group Audi holds lead responsibility for the development of electric drives.

On its way to becoming a “software-enabled car company” the Volkswagen Group is combining its development activities in the field of software in a newly created Group unit, the Car.Software organization. By 2025, it is therefore envisaged that there will be over 10,000 digital experts in the Car.Software organization developing in-car software, digital ecosystems and customer-facing retail functions. The goal is to establish a standardized software architecture across the Group and bring together hitherto parallel development pathways of the brands. By 2025, the Car.Software organization wants to invest more than EUR 7 billion in its tasks and projects. With the standardized software, it should be possible to generate substantial economies of scale within the Group and therefore substantially cut the costs per vehicle for all brands. The Car.Software organization has been in operation since January 1, 2020, as an independent business unit. In the first phase it brings together around 3,000 specialists from Volkswagen Group subsidiaries and participations. The next step involves bringing together specialists who have previously been working at various Group brands and regions under the umbrella organization of Car.Software.

/ USE OF RESOURCES

The research and development activities of the Audi Group came to EUR 4,426 (4,178) million in the year under review. This represents a research and development ratio of 7.9 (7.1) percent. The rise compared with the previous year is mainly attributable to our model initiative and to upfront expenditure for future technologies. Tougher regulatory requirements have also contributed to this development. Capitalized development costs rose to EUR 1,146 (1,593) million for cyclical reasons – equivalent to a capitalization ratio of 25.9 (38.1) percent. This ratio expresses capitalized development costs in relation to total research and development activities. Depreciation, amortization and impairment losses, including reversals of impairment losses on capitalized development costs totaled EUR 1,087 (856) million in the 2019 fiscal year.

Research and development activities

EUR million	2019	2018
Research expense and non-capitalized development costs	3,281	2,585
Capitalized development costs	1,146	1,593
Research and development activities	**4,426**	**4,178**

In the year under review, the Audi Group employed 15,021 (14,026) people on average in the Research and Development area – including 11,717 (11,108) people at AUDI AG. Employees were hired in the future fields of electric mobility, digitalization and autonomous driving, and also to reinforce internal processes. The consolidation of Autonomous Intelligent Driving GmbH, Munich, and the expansion of our local research and development activities in China also contributed to the rise.

/ KEY TOPICS IN THE YEAR UNDER REVIEW

In connection with our strategic goal of “consistently electric,” the gradual roll-out of the Audi e-tron for our customers since March 2019 has been heralding in the age of electric mobility at Audi. For the higher-end vehicle categories of the premium segment, we also offer plug-in hybrids. Since the year under review we have been able to supply our customers with plug-in hybrids badged as “TFSI e” in the Audi A6, A7, A8, Q5 and Q7 car lines. By 2025 we want to have around 30 electric models in our range, including about 20 fully electric models. With this portfolio, we want to achieve an NEV share of around 40 percent based on current market forecasts.

*Read more about the **NEV share** on **pages 46 f.***

In general our activities in the Research and Development area can be categorized into three main subject areas: “future topics,” “expansion and updating of model portfolio with conventional drive systems” and “basic/cross-area topics.” We report mainly cross-model activities under “basic/cross-area topics.” “Expansion and updating of model portfolio with conventional drive systems” covers the rejuvenation and expansion of our model range.

On the other hand, the “future topics” include all research and development activities that support us particularly with the implementation of our strategy. Thanks to efficiency improvements and synergies in the year under review, we were able to further reduce expenditure on “basic/cross-area topics” and invest the freed-up resources in “future topics” in the year under review.

Selected “future topics” in the Research and Development area in the 2019 fiscal year

Future topics	
Electric portfolio, sustainability and efficiency	> Expansion of product portfolio of fully electric models (further development of Audi e-tron, series-production start of Audi e-tron Sportback, development of Audi e-tron GT and Audi Q4 e-tron) > Development of a shared Premium Platform Electric (PPE) with Dr. Ing. h.c. F. Porsche AG, Stuttgart > Expansion of plug-in hybrid range (plug-in initiative in year under review with the Audi A6, A7, A8, Q5 as well as Audi Q7 as plug-in hybrid version) > Expansion of efficiency technologies (including mild-hybrid technology) > Expansion of charging infrastructure/systems (including Audi e-tron Charging Service as part of a wider charging concept, in collaboration with IONITY GmbH, Munich, and Electrify America, LLC, Reston (USA)) > Further development of h-tron fuel cell technology > Consistent use of lightweight construction involving multi-material applications > Development of circular economy solutions (including development of a closed loop for components of high-voltage batteries)
Driver assistance systems, automated driving and artificial intelligence	> Further development of automated driving > Further development of complex driver assistance systems (additional functions of adaptive cruise assist, Level 2) > Expansion of enabler technologies for automated and autonomous driving as well as for digital functions (development of a continuous end-to-end electronics architecture) > Further development of connected chassis systems
Audi connect and connectivity technologies	> Navigation thanks to HERE map data (e.g. self-learning function based on the route driven: recognizes the driver’s preferences and can therefore propose appropriate routes) > Expansion of vehicle connectivity with its environment (including vehicle communication with traffic signals in selected cities in Germany available as an option) > Expansion of broadband connectivity (LTE Advanced, 5G) > Development of extended Alexa integration
User experience (UX)	> Development of adaptive user interface (UI) and optimum integration of third-party applications into the Audi ecosystem > Development of new UI/UX technologies such as holography or the presentation of light and sound > Development of empathetic vehicle (e.g. Audi Intelligence Experience) – use of artificial intelligence increases passenger safety, well-being and comfort > Development of innovative display – with new technology, navigation can be displayed at a distance of eight to ten meters in the future
Audi design	> Progressive, sophisticated design solutions for exterior and interior > Development of new interior concepts that enable a range of application-based worlds of experience for the customer (including AI visionary vehicles; in 2019 AI:ME and AI:TRACK)

*Read more about our **innovations and technologies** at **www.audi.com**, **www.audi-mediacenter.com** and **www.audi.com/innovation.***

PROCUREMENT

The transformation of the automotive industry plus the strategic reorientation of the Audi Group are also presenting fresh challenges for Procurement. One priority is therefore to develop stable supplier relationships, making use of Group synergies. Other activities in focus in the year under review above all included ensuring sustainability standards in our supply chain, reducing complexity and optimizing material costs as part of the Audi Transformation Plan (ATP).

The commodity prices that are relevant for the Audi Group for the most part developed favorably in 2019 compared with our planning. To minimize the effects of fluctuations in commodity prices, we fundamentally seek long-term strategic solutions with our partners and act independently to protect important commodity prices. In this way we want to guarantee price stability and reliability of supplies. We continuously observe the availability of resources plus the demand situation in the market, and take appropriate action together with our suppliers as necessary.

/ STRENGTHENING SUSTAINABILITY IN THE SUPPLY CHAIN

We are convinced that entrepreneurial responsibility is a decisive factor in success, and therefore attach great importance to a sustainable supply chain. Since July 2019, our sustainability rating has been a mandatory criterion for awarding contracts to our suppliers. Within the contract awarding process, this places sustainability on a par with other important criteria such as cost, quality, technological expertise and innovative capacity – only suppliers with a positive rating can become Audi partners. The goal of this approach is to protect the environment and ensure social standards.

Read more about the topic of ***sustainability in the supply chain*** *on* ***pages 48 f.***

/ REDUCING COMPLEXITY AND OPTIMIZING COSTS

As part of the ATP, Procurement is working intensively with Technical Development to permanently reduce material, investment and indirect purchasing costs. This work package is the biggest contributor to the overall success of the ATP. For that reason, we comprehensively analyze our products right from the early development phase, and also later during series production. In the early product development phase we place even greater emphasis on design to cost, as well as on greater standardization. The use of carry-over parts and reducing product complexity, in particular by using Volkswagen Group platforms, are other important measures for optimizing material costs. We employ tools such as benchmarking and cost/value analyses here. We tap further potential by pooling processes, structures and expertise Company-wide and by using ideas generated by suppliers in joint workshops as well as suggestions for improvements from our employees. In all measures, our focus is on premium quality standards and customer benefit.

Read more about the ***Audi Transformation Plan (ATP)*** *on* ***pages 14 f.***

/ CREATING AND SOURCING INNOVATIONS

One goal of Audi Procurement is to identify innovative suppliers and join forces with them to turn ideas into innovations so that we can bring these to market before our competitors do. We ensure a close strategic dialogue with selected suppliers through the Volkswagen Group initiative FAST (Future Automotive Supply Tracks). We also secure strategic innovations by suppliers through an innovation process already introduced at Audi in 2016. This process now makes provision for awarding contracts in the early phase of product development. Our long-term goal is to develop into the preferred customer of suppliers through this approach. We continued the program in the 2019 fiscal year, succeeded in concluding further innovation contracts with new partners and brought out a large number of new products in series production.

PRODUCTION

/ AUTOMOTIVE SEGMENT [1)]

Car production by model

	2019	2018
Audi A1	–	8,750
Audi A1 Sportback	81,287	71,637
Audi Q2 [2)]	130,207	108,454
Audi A3 Sportback	128,788	171,729
Audi A3 Sedan	104,719	123,647
Audi A3 Cabriolet	7,302	9,571
Audi Q3	180,247	167,730
Audi Q3 Sportback	15,392	70
Audi TT Coupé	11,791	8,756
Audi TT Roadster	3,208	3,362
Audi A4 Sedan	228,113	244,484
Audi A4 Avant	85,790	86,548
Audi A4 allroad quattro	9,484	13,591
Audi A5 Sportback	71,128	80,162
Audi A5 Coupé	12,093	18,753
Audi A5 Cabriolet	9,856	12,629
Audi Q5	286,365	298,793
Audi A6 Sedan	176,362	195,270
Audi A6 Avant	50,677	51,990
Audi A6 allroad quattro	5,566	7,588
Audi A7 Sportback	17,068	20,058
Audi e-tron	43,185	2,404
Audi e-tron Sportback	191	21
Audi Q7	63,753	110,099
Audi Q8	44,890	22,414
Audi A8	23,826	24,541
Audi R8 Coupé	1,439	1,224
Audi R8 Spyder	682	540
Audi brand	**1,793,409**	**1,864,815**
Lamborghini Urus	5,233	2,565
Lamborghini Huracán	2,426	2,790
Lamborghini Aventador	1,005	1,216
Lamborghini brand	**8,664**	**6,571**
Automotive segment	**1,802,073**	**1,871,386**

2) This includes 2,867 (–) fully electric Audi Q2 L e-tron models built by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China), for the Chinese market.

// AUDI BRAND

In the 2019 fiscal year, we produced 1,793,409 (1,864,815) premium cars of the Audi brand. We adjusted production at our sites to reflect especially the worldwide fall in market demand, optimized stock levels and the large number of model changeovers. We produced 441,608 (491,262) vehicles at our Group headquarters in Ingolstadt.

In Neckarsulm we manufactured 177,209 (186,196) Audi models.

From January through December 2019, we built 156,995 (173,734) of the Audi Q5 at our production site at Audi México S.A. de C.V. in San José Chiapa (Mexico).

Over the same period, Audi Hungaria Zrt. manufactured a total of 164,817 (100,000) cars at the Győr site (Hungary). The year-on-year increase is mainly attributable to the production start of the Audi Q3 model in September 2018 and the new Audi Q3 Sportback.

We produced a total of 43,376 (66,286) vehicles at Audi Brussels S.A./N.V. in Brussels (Belgium). The reason for the significant fall is the site's conversion to the production of electric vehicles. The Brussels production operations for the two fully electric models Audi e-tron and Audi e-tron Sportback are gradually being ramped up, while the Audi A1 previously built at that site is now manufactured in Martorell (Spain).

Audi do Brasil Indústria e Comércio de Veiculos Ltda., São Paulo (Brazil), manufactured a total of 2,346 (6,568) cars in São José dos Pinhais, near Curitiba, in the 2019 fiscal year.

At the Volkswagen Group sites in Martorell (Spain) and Bratislava (Slovakia), 81,309 (83,629) and 108,198 (131,758) cars of the Audi brand were produced respectively. In Aurangabad (India), another Volkswagen Group site, we built 2,715 (7,442) cars.

In the 2019 fiscal year, the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China), produced a total of 443,905 (511,177) cars at the company headquarters in Changchun and 126,818 (106,647) vehicles in the southern Chinese city of Foshan. Furthermore, 44,113 (116) vehicles were manufactured at the Tianjin site. Local series production of the Audi Q3 commenced in Tianjin in the first quarter of 2019, while the Audi Q2 L e-tron – the first fully electric vehicle for the Chinese market – has been in series production at the Foshan site since the fourth quarter of 2019.

1) This includes 614,836 (617,940) Audi models manufactured by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China).

// LAMBORGHINI BRAND

Automobili Lamborghini S.p.A. built 8,664 (6,571) cars of the Lamborghini brand at its company headquarters in Sant'Agata Bolognese (Italy) in the year under review. The series production start of the Lamborghini Urus in 2018 contributed to significant growth in the production volume year-on-year.

// PRODUCTION OF ENGINES AND ELECTRIC POWERTRAINS

The Audi Group produced a total of 1,969,731 (1,955,532) engines and electric powertrains for cars in the 2019 fiscal year. Audi Hungaria Zrt. manufactured a total of 1,968,742 (1,954,301) units in Győr (Hungary). The figure includes electric motors for fully electric powertrains. Over the same period, Automobili Lamborghini S.p.A. built 989 (1,231) 12-cylinder engines in Sant'Agata Bolognese (Italy).

/ MOTORCYCLES SEGMENT

The Ducati brand produced 51,723 (53,320) motorcycles worldwide in the past fiscal year. 42,759 (44,221) units were built at the company headquarters in Bologna (Italy). Ducati produced 8,038 (8,150) motorcycles at the Amphur Pluakdaeng (Thailand) plant. In addition, 926 (949) bikes were built on a contract manufacturing basis in Manaus (Brazil).

Motorcycle production

	2019	2018
Scrambler	9,350	14,654
Naked/Sport Cruiser (Diavel, Monster, Streetfighter)	14,976	10,800
Dual/Hyper (Hypermotard, Multistrada)	17,353	13,728
Sport (SuperSport, Panigale)	10,044	14,138
Ducati brand	**51,723**	**53,320**
Motorcycles segment	**51,723**	**53,320**

*Read more about the **production sites** of the individual models on **page 10.***

/ SIGNIFICANT EXPANSIONS AT THE GROUP SITES

The focus for the Audi Group sites in the 2019 fiscal year was on preparing our production network for the forthcoming modernization and expansion of our product range. Furthermore, we prioritized projects that contribute to our goal of carbon-neutral production. With the Brussels site already having become the first Audi plant certified as carbon-neutral in 2018, we also invested in the Győr site to achieve carbon neutrality from 2020.

*Read more about the **sustainability** of our production on **page 49.***

// NEW DEVELOPMENTS AT THE INGOLSTADT SITE

With the completion of the building for the new body shop at the north end of our factory site in Ingolstadt, preparations progressed there for the generation changeover in the Audi A3 family. In this context, we continued preparations in the year under review for the start of production by installing production facilities, body manufacturing equipment and assembly stations. The brand with the Four Rings continued to concentrate on increasing flexibility in production at the Ingolstadt site. Since the start of 2019, we have been building models of the A and B segments on one assembly line for the first time. Alongside the Audi A4 and Audi A5, the Audi A3 Sedan now also comes off the same line.

In addition, under the "Audi.Zukunft" agreement the Ingolstadt plant is making preparations to build premium electric vehicles. The Premium Platform Electric (PPE), which brings together several models, will be available for that purpose in the future.

// ADJUSTMENTS FOR THE FUTURE AT THE NECKARSULM SITE

At the Neckarsulm site's Böllinger Höfe facility we made preparations for the production of the fully electrically powered Audi e-tron GT. With two new logistics halls and conversion work being carried out while operations continue, including the construction of modern systems in the body and assembly areas, we are getting ready to build the Audi R8 and the Audi e-tron GT together on the same line. In 2019, we also invested at the Neckarsulm site in preparatory measures for the introduction of future electric models. The year under review also featured the construction of a multi-purpose building for Technical Development at the Neckarsulm plant, housing development workshops and office workplaces. This concentrating of the previously heterogeneous infrastructure enhances synergies and improves efficiency in future cooperation in key future areas.

// EXPANSION AT HUNGARIAN SITE GYŐR

In 2019, the Audi Q3 was followed by another SUV model manufactured in Győr – the new Audi Q3 Sportback. This necessitated in particular the expansion of the facilities and fixtures in the press shop and body shop so that the new model could be integrated into the existing production process. With a capacity increase and conversions to the engine production line for the gasoline engine segment, the Győr plant prepared for the series-production start of the new inline three-cylinder engine in 2020. In particular the redesign of the production lines and the installation of new facilities since summer 2019 will assure a smooth production start in 2020. To accommodate further product versions, we also invested in measures to increase capacity in electric motor and powertrain production.

// PREPARATIONS FOR A NEW DERIVATIVE VERSION AT MEXICO SITE

Likewise at San José Chiapa (Mexico), we made preparations for the production start of a new derivative version by investing in technical equipment and machinery. In the future we will build a further model in the SUV segment at the modern production plant, in addition to our successful volume model Audi Q5.

// EXPANSION OF LOCAL PRODUCTION IN CHINA

In partnership with FAW-Volkswagen Automotive Company, Ltd., Changchun (China), production capacities in China are to be ramped up flexibly over the next few years to over 700,000 units annually, depending on market demand. There are also plans to create scope in the future for a locally built product portfolio of 12 models. In this connection, alongside the start of local production in Tianjin in 2019, local production will be extended to the Qingdao site in 2020. Two Audi models will be built there in the future. The first model will be the new Audi A3 Sportback with start of production in 2020, followed by the new Audi A3 Sedan. In addition to the Foshan-built Audi Q2 L e-tron that is tailored specifically to the requirements of Chinese customers, from 2020 the next fully electric vehicle – the Audi e-tron – will be produced locally in Changchun. The production preparations for it already started in the 2019 fiscal year. The tasks included especially the modernization and reorganization of the existing production line, as well as the integration of an in-house battery assembly line.

DELIVERIES AND DISTRIBUTION

/ AUTOMOTIVE SEGMENT [1)]

Car deliveries to customers by model

	2019	2018
Audi A1	162	10,713
Audi A1 Sportback	80,780	70,800
Audi Q2 [2)]	132,844	97,091
Audi A3	15	997
Audi A3 Sportback	144,373	161,351
Audi A3 Sedan	109,251	125,861
Audi A3 Cabriolet	8,107	9,688
Audi Q3	177,666	170,388
Audi Q3 Sportback	6,157	70
Audi TT Coupé	11,283	11,539
Audi TT Roadster	3,662	3,102
Audi A4 Sedan	234,387	244,707
Audi A4 Avant	84,579	83,774
Audi A4 allroad quattro	8,501	16,105
Audi A5 Sportback	72,003	72,786
Audi A5 Coupé	13,072	20,268
Audi A5 Cabriolet	10,602	14,725
Audi Q5	305,235	294,905
Audi A6 Sedan	182,005	197,212
Audi A6 Avant	58,579	47,721
Audi A6 allroad quattro	4,216	8,887
Audi A7 Sportback	17,387	19,974
Audi e-tron	26,367	705
Audi Q7	86,028	95,768
Audi Q8	44,054	10,543
Audi A8	22,314	20,045
Audi R8 Coupé	1,350	1,862
Audi R8 Spyder	594	898
Audi brand	**1,845,573**	**1,812,485**
Lamborghini Urus	4,962	1,761
Lamborghini Huracán	2,139	2,780
Lamborghini Aventador	1,104	1,209
Lamborghini brand	**8,205**	**5,750**
Other Volkswagen Group brands	**55**	**263,183**
Automotive segment	**1,853,833**	**2,081,418**

2) This includes 201 (–) fully electric Audi Q2 L e-tron models for the Chinese market.

// AUDI BRAND

We delivered 1,845,573 (1,812,485) cars of our core brand Audi to customers worldwide in the 2019 fiscal year. Our model initiative was a defining feature of the year under review. In the first half of the year, a large number of model changeovers and effects from restrictions to the sales range following the change to the new WLTP test cycle impacted our deliveries. Thanks to the increased availability of many new models during the second half of the year, we nevertheless registered clear growth in deliveries in the fourth quarter of 2019 and consequently improved overall on the prior-year volume by 1.8 percent, despite the shrinking overall market. The previous year had likewise featured model startups and discontinuations as well as the switching of our model portfolio to the new WLTP test cycle, mainly in the latter half of the year.

In Western Europe, we increased deliveries to customers by 4.0 percent to 721,043 (693,330) vehicles of the Audi brand. In our home market Germany we achieved a volume increase of 4.3 percent to 271,613 (260,456) cars thanks especially to new models. In the United Kingdom, our biggest European export market, 139,026 (143,716) customers chose vehicles of the brand with the Four Rings in the year under review. The fall of – 3.3 percent compared with the previous year is mainly attributable to uncertainty surrounding the negotiations over the United Kingdom's exit from the EU. In Italy we delivered 64,056 (62,256) Audi vehicles to customers, an increase of 2.9 percent. In France, too, we increased our delivery volume by 12.6 percent to 58,241 (51,710) cars. In Spain, deliveries of the Audi brand came to 50,904 (53,105) models, down – 4.1 percent on the prior-year figure. In Belgium, on the other hand, we succeeded in increasing our volume by 16.1 percent and delivered 32,506 (27,996) cars to customers.

1) This includes 630,800 (600,700) delivered Audi models built locally by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China).

The Central and Eastern Europe region reported deliveries of 48,588 (50,283) Audi models from January through December 2019, a decline in volume of – 3.4 percent. However, we bucked the negative overall market trend in Russia and increased our deliveries by 0.7 percent to 16,333 (16,216) vehicles, and in Poland by 4.2 percent to 14,177 (13,606) Audi models. Nevertheless, the delivery volume in this region was depressed especially by the decline in volume in Ukraine.

In the North America region we delivered 270,100 (275,012) units in the same period – this represents a fall of – 1.8 percent. The 2019 fiscal year brought a large number of model changeovers and a challenging competitive situation in the United States and Canada. Against the negative overall market trend, the brand with the Four Rings nevertheless delivered 224,111 (223,323) Audi models in the United States, a rise of 0.4 percent. This was above all thanks to the positive volume development of our new full-size models – the Audi A6, A7, A8 and the Audi Q8. Conversely our delivery volume of 33,531 (36,908) cars in Canada represents a fall of – 9.1 percent.

With 16,182 (18,841) cars of the Audi brand and a decrease of – 14.1 percent, deliveries in the South America region were down year-on-year. Brazil – our biggest single market in that region – equally showed a negative development. We delivered 8,269 (8,810) Audi vehicles to customers there in the year under review – a decrease of – 6.1 percent.

In the 2019 fiscal year, we delivered 756,042 (739,018) Audi vehicles to customers in the Asia-Pacific region. The volume was therefore 2.3 percent up on the previous year’s already high total. In our largest market China, we handed 690,083 (663,049) cars of the Audi brand over to customers and set another record for that market. This means that, despite the overall market’s contraction, we improved on the previous year’s volume by 4.1 percent. In Japan, deliveries of 24,339 (26,479) units were – 8.1 percent below the prior-year figure.

MARKET INTRODUCTIONS OF NEW AUDI MODELS IN 2019 AND 2020

Electric models

2019 Q1

Audi e-tron

2019 Q3

Audi Q5 TFSI e

Audi A7 Sportback TFSI e

Models with conventional drive system

2019 Q1

Audi R8 Coupé/Spyder

Audi TTS Roadster/Coupé

2019 Q2

Audi TT RS Roadster/Coupé

Audi S7 TDI Sportback

Audi S6 TDI Sedan/Avant

Audi SQ5 TDI

2019 Q3

Audi SQ8 TDI

Audi Q7/SQ7 TDI

Audi A6 allroad quattro

Audi A4/S4 TDI Sedan/Avant

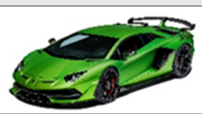
Audi A4 allroad quattro

Audi Q3 Sportback

2019 Q1 | **2019 Q2** | **2019 Q3**

MARKET INTRODUCTIONS OF NEW LAMBORGHINI MODELS IN THE 2019 FISCAL YEAR

Lamborghini



Lamborghini Aventador SVJ

Lamborghini Huracán EVO

Lamborghini Huracán EVO Spyder

Lamborghini Aventador SVJ Roadster

Lamborghini Sián FKP 37

2019 fiscal year

New model, no predecessor // New model // Product improvement

Audi A8 TFSI e/
A8 L TFSI e

Audi Q7 TFSI e

Audi Q2 L e-tron

Audi e-tron Sportback

Audi A6 Sedan TFSI e

Audi RS 7 Sportback

Audi RS Q8

Audi S8

Audi R8 V10 RWD
Coupé/Spyder

Audi RS Q3 Sportback

Audi RS 4 Avant

Audi RS 6 Avant

Audi A5 family

Audi RS Q3

Audi A1 citycarver

Audi A4 Avant g-tron

Audi A3 Sportback

2019 Q4

2020 fiscal year [1)]

*Read more online about our **Audi models** at **www.audi.com/models.***

1) Audi models presented in the 2019 fiscal year and Audi models presented in 2020 with phased market introduction in 2020

// *LAMBORGHINI BRAND*

Our Italian brand Lamborghini delivered a total of 8,205 (5,750) vehicles to customers in the 2019 fiscal year. The increase of 42.7 percent also marked a new deliveries record. The growth in volume was driven mainly by the market success of the Lamborghini Urus Super SUV, which has been on sale since summer 2018.

The United States was again the largest single market for the Lamborghini brand in the year under review, followed by China, the United Kingdom, Japan and Germany. Lamborghini was able to increase its deliveries in these markets in the 2019 fiscal year and set new national records.

Read more online about our ***Lamborghini models*** *at* ***www.lamborghini.com.***

// *OTHER VOLKSWAGEN GROUP BRANDS*

Effective January 1, 2019, management responsibility for the multi-brand sales companies Audi Volkswagen Korea Ltd., Seoul (South Korea), Audi Volkswagen Middle East FZE, Dubai (United Arab Emirates), Audi Volkswagen Taiwan Co., Taipei, and Volkswagen Group Italia S.p.A., Verona (Italy), was transferred to Volkswagen AG, Wolfsburg, under a control agreement. As a result of the deconsolidation of these companies, the deliveries of other brands of the Volkswagen Group of the above multi-brand sales companies have no longer been reported within the Audi Group since January 1, 2019. Following this change, we merely delivered 55 vehicles of the Bentley brand to customers. In the previous year, a total of 263,183 vehicles of other brands were handed over to customers.

/ *MOTORCYCLES SEGMENT*

Our Italian motorcycle manufacturer Ducati handed 53,183 (53,004) motorcycles over to customers worldwide in the 2019 fiscal year – an increase of 0.3 percent. Ducati benefited from a positive trend in deliveries in its home market Italy, which is also its largest market. By contrast, the volume of deliveries in the U.S. market declined mainly as a result of lower overall market demand.

Motorcycle deliveries to customers by model

	2019	2018
Scrambler	11,873	13,137
Naked/Sport Cruiser (Diavel, Monster, Streetfighter)	13,820	13,375
Dual/Hyper (Hypermotard, Multistrada)	16,632	13,761
Sport (SuperSport, Panigale)	10,858	12,731
Ducati brand	**53,183**	**53,004**
Motorcycles segment	**53,183**	**53,004**

In the year under review of 2019, the Ducati brand brought a large number of new and revised models onto the markets. For example, the Panigale V4 R has been available from dealers since the first quarter of 2019. In addition, the Ducati Corse model variant was given a MotoGP paint finish.

Complementing the new Ducati Multistrada 1260 Enduro, the versatile Multistrada 950 and 950 S models – the latest additions to the Multistrada range – feature modern technology to improve safety and enhance ride comfort. Other new versions on sale since the year under review are the second generation of the Diavel 1260 and 1260 S models as well as the Ducati Hypermotard 950 and 950 SP variants, which have been completely revised, including improvements to the suspension and a new electronics package. The Ducati Monster range featured revised versions of the 797 and 797+, along with a new model variant, the Monster 821 Stealth. In addition, the Scrambler models Icon, Café Racer, Full Throttle and Desert Sled were extensively revised in the 2019 fiscal year.

In November 2019, Ducati took the wraps off its new models for the 2020 fiscal year. It presented the Streetfighter V4 and Streetfighter V4 S, the Panigale V2, Panigale V4 and Panigale V4 S – these are appearing at dealers in stages from the start of 2020. The new versions of the Multistrada 1260 S Grand Tour as well as the Diavel 1260, Diavel 1260 S and the Icon Dark model from the Scrambler model family, were also premiered. These motorcycles will also go on sale to customers gradually throughout 2020.

Read more online about our ***Ducati models*** *at* ***www.ducati.com***.

FINANCIAL PERFORMANCE INDICATORS

In the 2019 fiscal year, the Audi Group generated revenue amounting to EUR 55.7 billion, taking into account the deconsolidation of the multi-brand sales companies. The operating return on sales came to 8.1 percent despite a difficult market environment.

FIRST-TIME APPLICATION OF NEW ACCOUNTING STANDARDS

Since January 1, 2019, the Audi Group has recognized leases in accordance with IFRS 16. Due to the resulting first-time recognition of rights of use and the corresponding lease liabilities, the balance sheet total increased slightly. In addition, this had a marginal impact on individual items of the income statement, the cash flow statement and on further financial key figures.

*Read more about the impact of the **first-time application of IFRS 16** in the notes on **pages 123 f.***

MATERIAL CHANGES IN RECOGNITION AND MEASUREMENT METHODS

In the case of self-generated intangible assets and the related property, plant and equipment, previously the individual product or individual product family normally constituted the cash-generating unit. In the 2019 fiscal year, this unit had to be redefined for the Automotive segment because it is no longer the case that cash inflows generated by individual products are largely independent of those generated by other products. In particular, tighter emissions regulations worldwide mean that the cash inflows from individual products increasingly influence each other. As a consequence of the altered framework conditions, since October 1, 2019, the brands have generally constituted the cash-generating units in the Automotive segment. The altered definition of the cash-generating units resulted in a one-time reversal of impairment losses on non-current assets in the amount of EUR 243 million in the fourth quarter of 2019. This is recognized in other operating income and will result in an increase in depreciation and amortization in subsequent periods. In addition, impairment losses of EUR 89 million recognized in the first three quarters of the fiscal year had to be reversed. The adjusted definition of the cash-generating units will result in a moderate increase in the capitalization ratio in the future.

FINANCIAL PERFORMANCE

The revenue of the Audi Group totaled EUR 55,680 (59,248) million in the 2019 fiscal year. The decrease is attributable to the deconsolidation of the multi-brand sales companies, which had contributed a total of EUR 5,631 million to revenue in the prior-year period.

In the Automotive segment, revenue equally declined for the same reason to EUR 54,964 (58,550) million.

We generated revenue of EUR 39,467 (37,259) million through sales of vehicles of our core brand Audi. Positive drivers included especially the market success of our expanded SUV portfolio – above all of the fully electric Audi e-tron and the Audi Q8 – as well as the improved mix with an increased share for our full-size models.

Revenue from engines, powertrains and parts deliveries fell to EUR 8,102 (8,326) million mainly due to lower proceeds from deliveries of parts sets for local production in China.

Revenue from other automotive business of EUR 5,653 (6,305) million was likewise down, among other reasons because of declining business for genuine parts following the deconsolidation of the multi-brand sales companies.

Revenue for the Lamborghini brand increased to EUR 1,743 (1,316) million above all as a result of the significant rise in demand for the Lamborghini Urus.

In the Motorcycles segment, revenue generated by the Ducati brand amounted to EUR 716 (699) million. This was positively impacted by price and mix effects in particular.

Condensed income statement, Audi Group

EUR million	2019	2018
Revenue	55,680	59,248
Cost of goods sold	– 47,597	– 50,117
Gross profit	**8,082**	**9,131**
Distribution costs	– 3,418	– 4,155
Administrative expenses	– 687	– 696
Other operating result	533	– 751
Operating profit	**4,509**	**3,529**
Financial result	713	831
Profit before tax	**5,223**	**4,361**
Income tax expense	– 1,279	– 898
Profit after tax	**3,943**	**3,463**

Key operating performance figures, Audi Group

EUR million	2019	2018
Operating profit before special items	**4,509**	**4,705**
Special items 1)	–	– 1,176
Operating profit	**4,509**	**3,529**
Automotive segment	4,481	3,505
Motorcycles segment	29	25
adjusted for effects of PPA 2)	*52*	*49*
Profit before tax	**5,223**	**4,361**

in %	2019	2018
Operating return on sales before special items	**8.1**	**7.9**
Operating return on sales	**8.1**	**6.0**
Automotive segment	8.2	6.0
Motorcycles segment	4.0	3.6
adjusted for effects of PPA 2)	*7.2*	*7.0*
Return on sales before tax	**9.4**	**7.4**

1) In the 2019 fiscal year, the effects on earnings in connection with the diesel issue were of lesser importance overall when compared with the amounts reported as special items in the previous year.
2) Adjusted for the effects of subsequent measurement in connection with the purchase price allocation (PPA) amounting to EUR 23 (23) million

The cost of goods sold for the Audi Group declined to EUR 47,597 (50,117) million in the 2019 fiscal year, influenced mainly by the elimination of purchase costs from the multi-brand sales companies' trading transactions. While there was a negative effect from higher research and development expenditure, increased personnel costs – among other things, due to expenses for an early-retirement program in connection with "Audi.Zukunft" – as well as from the mix-based increased cost of materials, the Audi Transformation Plan (ATP) had a positive effect, for example by optimizing warranty processes.

Research and development activities in the 2019 fiscal year amounted to EUR 4,426 (4,178) million. Relative to revenue, the research and development ratio accordingly came to 7.9 (7.1) percent. The rise compared with the previous year is mainly attributable to our model initiative and to upfront expenditure for future technologies. Tougher regulatory requirements have also contributed to this development. An amount of EUR 1,146 (1,593) million of development activities was capitalized – this represents a capitalization ratio of 25.9 (38.1) percent. This ratio expresses capitalized development costs in relation to total research and development activities. The fall in capitalized development costs is mainly attributable to our young product portfolio in terms of life cycles. The change to the cash-generating unit in the fourth quarter resulted in an increase in capitalization. Research and development expenditure recognized as an expense rose to EUR 4,368 (3,441) million in the period under review. Amortization of capitalized development costs rose to EUR 1,143 (856) million. The change in the cash-generating unit was reflected by recognizing the reversal of impairment losses in an amount of EUR 55 (–) million in the 2019 fiscal year. The research and non-capitalized development costs came to EUR 3,281 (2,585) million.

The gross profit of the Audi Group amounted to EUR 8,082 (9,131) million in the year under review.

Distribution costs in the 2019 fiscal year fell to EUR 3,418 (4,155) million. The year-on-year decrease is attributable to the deconsolidation of the multi-brand sales companies, as well as to priorities within sales and marketing activities.

The administrative expenses of the Audi Group were on a par with the previous year at EUR 687 (696) million.

The other operating result increased to EUR 533 (–751) million. The key factor behind the change from the previous year was that the figure for the 2018 fiscal year included expenses incurred in connection with the diesel issue. Moreover, income from the reversal of impairment losses as a result of the change in the cash-generating unit in the amount of EUR 243 million and slightly higher residual values had a positive effect in the 2019 fiscal year.

The operating activities of the Audi Group are reflected in the operating profit of EUR 4,509 (3,529) million. This represents an operating return on sales of 8.1 (6.0) percent. The prior-year figure includes special items from the diesel issue in the amount of EUR –1,176 million, mainly from the fine under the administrative order on the regulatory offense proceedings conducted by the Munich II public prosecutor against AUDI AG that were completed in October 2018. In the 2019 fiscal year, the effects on earnings in connection with the diesel issue were of lesser importance overall when compared with the amounts reported as special items in the previous year. The revenue-reducing deconsolidation of the multi-brand sales companies had a positive influence on the operating return on sales compared with the previous year.

In the Automotive segment, we generated an operating profit of EUR 4,481 (3,505) million and an operating return on sales of 8.2 (6.0) percent, although the previous year was also negatively impacted in this respect by special items. In the 2019 fiscal year, the effects on earnings in connection with the diesel issue were of lesser importance overall when compared with the amounts reported as special items in the previous year. These reflected especially the improved model mix and also the healthy profit for the Lamborghini brand. The successfully continued Audi Transformation Plan (ATP) in the 2019 fiscal year equally had a positive impact on profit. As a result, measures worth around EUR 2.5 billion in terms of revenue and costs were implemented in the whole of 2019. This again helped us compensate for a range of negative factors. To a significant degree these measures directly affect operating profit. Since the start of the ATP in 2018, the program has already contributed around EUR 4.4 billion and is therefore well on the way to raising a total of EUR 15 billion by 2022.

In the Motorcycles segment, the operating profit came to EUR 29 (25) million. This represents an operating return on sales of 4.0 (3.6) percent. After adjusting for the effects of subsequent measurement in connection with the purchase price allocation of EUR 23 (23) million, operating profit reached EUR 52 (49) million and the operating return on sales 7.2 (7.0) percent. Mix effects proved especially beneficial.

Financial result, Audi Group

EUR million	2019	2018
Result from investments accounted for using the equity method	274	261
of which FAW-Volkswagen Automotive Company, Ltd.	*180*	*171*
of which Volkswagen Automatic Transmission (Tianjin) Company Ltd.	*185*	*176*
of which SAIC Volkswagen Automotive Company Ltd.	*27*	*21*
of which There Holding B.V.	*– 117*	*– 106*
Net interest result	2	118
Other financial result	436	452
of which brand settlement, China business [1]	*295*	*386*
of which one-time effect from dividend income [2] *and selling profit of FAW-Volkswagen Automotive Company, Ltd.*	*–*	*317*
Financial result	**713**	**831**
of which China business [3]	*688*	*1,071*

1) Financial brand settlement agreed between AUDI AG and Volkswagen AG, Wolfsburg, and performance-related income for China business in connection with associated companies
2) Share of assets classified as held for sale
3) Includes the items FAW-Volkswagen Automotive Company, Ltd., Volkswagen Automatic Transmission (Tianjin) Company Limited, SAIC Volkswagen Automotive Company Ltd., brand settlement/performance-related income for China business and dividend from FAW-Volkswagen Automotive Company, Ltd.

The financial result of the Audi Group declined to EUR 713 (831) million in the past fiscal year. The result from our China business was lower at EUR 688 (1,071) million, above all due to the strained competitive situation as well as to the sale of shares in FAW-Volkswagen Automotive Company, Ltd., Changchun (China), to Volkswagen AG, Wolfsburg, in the previous year. In addition, dividend income as a one-time effect from the portion of the participating interest in FAW-Volkswagen Automotive Company, Ltd., Changchun (China), classified as available for sale was included in the financial result for the previous year. Income from securities had a positive effect on the financial result compared with the previous year.

In the 2019 fiscal year, the Audi Group posted a profit before tax of EUR 5,223 (4,361) million. The return on sales before tax was 9.4 (7.4) percent. After deduction of income tax expense, we generated a profit of EUR 3,943 (3,463) million.

Return on investment, Audi Group

EUR million	2019	2018
Operating profit after tax	3,157	2,471
Invested assets (average)	24,930	24,829
Return on investment (ROI) in %	**12.7**	**10.0**

The return on investment (ROI) expresses the return achieved on the capital employed. We obtain this indicator by determining the ratio of operating profit after tax to average invested assets. The return on investment for the Audi Group consequently reached 12.7 (10.0) percent in the 2019 fiscal year, and therefore exceeded our minimum rate of return of 9 percent. Year-on-year, the positive development in return on investment is largely attributable to the higher operating profit after tax, which reached EUR 3,157 (2,471) million in the year under review. The standardized average tax rate for the Volkswagen Group of 30 percent was assumed for this purpose. The average invested assets came to EUR 24,930 (24,829) million and are calculated from the asset items on the balance sheet that serve the core business purpose (intangible assets, property, plant and equipment, leasing and rental assets, investment property, inventories and receivables) less non-interest-bearing liabilities (trade payables and advances received). The average of the value of invested assets at the start and the value of the invested assets at the end of the fiscal year is then calculated. The invested assets in the year under review remained unchanged from the previous year despite the decline in inventories and receivables, because liabilities were also lower.

NET WORTH

The balance sheet total of the Audi Group as of December 31, 2019, rose to EUR 66,878 (65,598) million.

Condensed balance sheet, Audi Group

EUR million	Dec. 31, 2019	Dec. 31, 2018
Non-current assets	34,211	32,393
Current assets	32,422	33,205
Assets classified as held for sale	246	–
Balance sheet total	**66,878**	**65,598**
Equity	28,395	29,698
Liabilities	38,431	35,900
of which non-current liabilities	*16,212*	*14,549*
of which current liabilities	*22,219*	*21,351*
Liabilities classified as held for sale	52	–
Balance sheet total	**66,878**	**65,598**

As of the end of 2019, non-current assets of the Audi Group totaled EUR 34,211 (32,393) million. The increase is especially attributable to the multi-brand sales companies deconsolidated in the year under review and now reported under non-current assets as investments accounted for using the equity method. In addition, the first-time application of IFRS 16 resulted overall in an increase in non-current assets amounting to EUR 532 million. Property, plant and equipment rose above all as a result of the related capitalization of the rights of use to EUR 14,618 (14,293) million.

Total capital investment in the 2019 fiscal year fell to EUR 4,223 (5,552) million as a result of our investment discipline.

Current assets as of December 31, 2019, were down on the prior-year figure at EUR 32,422 (33,205) million. A major effect within this item was the drop in inventories to EUR 7,819 (9,406) million, above all from the deconsolidation of the multi-brand sales companies as well as the reduction in our stock levels. Trade receivables were also lower. Cash funds increased to EUR 11,731 (9,309) million following a substantial rise in net cash flow and as a result of lower profit transfers paid to Volkswagen AG, Wolfsburg, in 2019.

The equity of the Audi Group as of December 31, 2019, amounted to EUR 28,395 (29,698) million. The consolidated net profit remaining after the transfer of profit in accordance with IFRS increased retained earnings by EUR 98 million. The development in equity was held back by the measurement effects to be recognized with no impact on profit or loss under IFRS rules, which led overall to a decrease in equity of EUR –1,494 million. These result mainly from higher actuarial losses when measuring provisions for pensions due to the lower interest rate. Fluctuations in the market value of hedge-effective currency hedging instruments, mainly in connection with the revaluation of the pound sterling, the U.S. dollar and the Canadian dollar against the euro, also had an impact. The equity ratio of the Audi Group as of December 31, 2019, was 42.5 (45.3) percent. It expresses equity as a percentage of the balance sheet total as of December 31 of the respective fiscal year.

As of the end of 2019, non-current liabilities of the Audi Group totaled 16,212 (14,549) million. The change is in essence down to a higher measurement of provisions for pensions in response to the lower interest rate.

Furthermore, non-current and current financial liabilities rose by EUR 535 million as a result of the first-time application of IFRS 16 on January 1, 2019.

The current liabilities of the Audi Group as of December 31, 2019, rose to EUR 22,219 (21,351) million. The main drivers of the increase were the other financial liabilities at the end of 2019 amounting to EUR 6,789 million, compared with EUR 4,067 million as of December 31, 2018. The rise is substantially attributable to the forthcoming profit transfer for the 2019 fiscal year to Volkswagen AG, Wolfsburg. Conversely, the reduction in current provisions also had an impact on current liabilities. Trade payables fell to EUR 7,106 (8,565) million in particular because of production steering towards the end of the year.

In the 2019 fiscal year, the balance sheet items “Assets classified as held for sale” and “Liabilities classified as held for sale” relate mainly to the following two matters: In July 2019, Volkswagen AG announced that together with Ford Motor Company, Dearborn (United States), it will invest in Argo AI, Pittsburgh (United States), a company that specializes in software platforms for autonomous driving, and that this will be effected, among other things, by the contribution of the fully consolidated AUDI AG subsidiary Autonomous Intelligent Driving GmbH, Munich. The contribution of Autonomous Intelligent Driving GmbH is expected to take place in the first half of 2020 – subject to

the approval of the supervisory authorities. AUDI AG will sell the company first to Volkswagen Finance Luxemburg S.A., Strassen (Luxembourg).
Since January 1, 2020, the Car.Software organization has grouped together those participations and subsidiaries in the Group that develop software in the vehicle and for the digital ecosystems in a dedicated company within the Volkswagen Group. As part of this process, Audi sold Audi Electronics Venture GmbH, Gaimersheim, to Porsche Siebte Vermögensverwaltung GmbH, Wolfsburg.

FINANCIAL POSITION

/ *PRINCIPLES AND GOALS OF FINANCIAL MANAGEMENT*

Our overriding financial goals are to ensure the solvency and financing of the Audi Group at all times, while at the same time achieving a suitable return on the investment of surplus liquid funds. To that end, we identify cash flows in a multi-stage liquidity planning process and consolidate them at Audi Group level. The material companies of the Audi Group are included in the cash pooling of the Volkswagen Group. This permits the efficient handling of intra-Group and external transactions, and also reduces transaction costs.

Read more about the principles and goals of financial management, and in particular about ***financial opportunities and risks****, in the Report on Risks and Opportunities on* ***pages 105 ff.***

/ *FINANCIAL SITUATION*

The Audi Group generated cash flow from operating activities of EUR 7,479 (7,013) million in the 2019 fiscal year. This increase was achieved above all through a higher profit before tax. In terms of our working capital, lower inventories and receivables were equally accompanied by a decline in liabilities.

The cash used for investing activities attributable to operating activities came to EUR 4,319 (4,871) million in 2019. This above all reflects our investment discipline in the 2019 fiscal year as well as lower additions to capitalized development costs.

We scaled back capex, which also contains investment property and other intangible assets, to EUR 2,731 (3,493) million. This item includes investments in such areas as our manufacturing structure for the production start of new models, and for the expansion and conversion of our sites. The ratio of capex in the year under review of 2019 came to 4.9 (5.9) percent. This expresses capex in relation to revenue.

In terms of segments, EUR 3,805 (5,018) million of investments in property, plant and equipment, investment property and intangible assets (including capitalized development costs) was for the Automotive segment and EUR 71 (69) million for the Motorcycles segment.

The investing activities attributable to operating activities also include capitalized development costs amounting to EUR 1,146 (1,593) million. The decrease compared with the prior-year period stems principally from our young product portfolio. In the year under review, the acquisition and sale of participations totaled EUR –497 (136) million.

From January through December 2019, we generated an overall net cash flow of EUR 3,160 (2,141) million. The prior-year figure was dominated by the high amount of cash used in connection with the diesel issue. Negative effects compared with the previous year resulted from the disposal of cash funds from the deconsolidation of the multi-brand sales companies, while destocking had a positive impact.

Taking account of changes in cash deposits and loans extended, the total cash flow from investing activities came to EUR –3,118 (–7,169) million. The changes in cash deposits and loans extended in the year under review also include loans extended to affiliated companies of the Volkswagen Group, which were lower than in the prior-year period.

Cash flow from financing activities amounted to EUR –1,200 (–2,564) million. It comprises, for example, the profit transfer to Volkswagen AG, Wolfsburg, of EUR 1,096 million.

As of the balance sheet date, our cash funds showed an increase to EUR 11,747 (8,550) million.

The net liquidity of the Audi Group as of December 31, 2019, amounted to a total of EUR 21,754 (20,442) million. This sum includes an amount of EUR 83 (98) million on deposit at Volkswagen Bank GmbH, Braunschweig, mainly for the financing of independent dealers and which is only available to a limited extent. Furthermore, as of December 31, 2019, the Audi Group had committed but currently unused external credit lines amounting to EUR 315 (349) million.

Other financial obligations, which comprise ordering commitments in particular, totaled EUR 3,021 (4,758) million as of December 31, 2019. There were other off-balance-sheet obligations in the form of contingent liabilities and financial guarantees amounting to EUR 388 (311) million.

*Read more about **other financial obligations** and **contingent liabilities** in the notes to the consolidated financial statements under **note 40** and **note 43.***

Condensed cash flow statement, Audi Group

EUR million	2019	2018
Cash and cash equivalents at beginning of period	8,550	11,255
Cash flow from operating activities	**7,479**	**7,013**
Investing activities attributable to operating activities [1]	– 4,319	– 4,871
of which capital expenditure [2]	*– 2,731*	*– 3,493*
of which capitalized development costs	*– 1,146*	*– 1,593*
of which acquisition and sale of participations [3]	*– 497*	*136*
Net cash flow	3,160	2,141
Change in cash deposits and loans extended	1,201	– 2,297
Cash flow from investing activities	**– 3,118**	**– 7,169**
Cash flow from financing activities	**– 1,200**	**– 2,564**
Change in cash and cash equivalents due to changes in exchange rates	36	16
Change in cash and cash equivalents	**3,196**	**– 2,705**
Cash and cash equivalents at end of period	**11,747**	**8,550**

1) The item also includes other cash changes of EUR 54 (79) million.
2) This includes investments in property, plant and equipment, investment property and other intangible assets according to the cash flow statement.
3) Including changes in capital

EUR million	Dec. 31, 2019	Dec. 31, 2018
Cash funds as per cash flow statement	11,747	8,550
Cash funds classified as held for sale	– 115	–
Short-term fixed deposits	11,170	12,319
Gross liquidity	**22,802**	**20,869**
Credit outstanding [4]	– 1,048	– 427
Net liquidity	**21,754**	**20,442**

4) Current financial liabilities and non-current financial liabilities

AUDI AG (SHORT VERSION ACCORDING TO GERMAN COMMERCIAL CODE, HGB)

AUDI AG revenue for the 2019 fiscal year came to EUR 51.5 billion, in particular thanks to our successful SUV models. AUDI AG generated a profit before tax of EUR 4.8 billion.

FINANCIAL PERFORMANCE

AUDI AG generated revenue of EUR 51,502 (50,203) million in 2019.
Revenue from the sale of cars of the Audi brand came to EUR 38,355 (36,907) million. Positive factors included the market success of the Audi e-tron and Audi Q8.

Within other automotive business, the revenue from deliveries of parts sets for local production in China was lower.

Condensed income statement, AUDI AG

EUR million	2019	2018
Revenue	51,502	50,203
Cost of goods sold	– 47,428	– 45,887
Gross profit	**4,074**	**4,316**
Distribution costs	– 2,763	– 3,425
Administrative expenses	– 412	– 385
Other operating result	1,723	1,350
Financial result	2,137	– 192
Profit before tax	**4,759**	**1,664**
Income tax expense	– 1,007	– 568
Profit transferred under a profit transfer agreement	– 3,752	– 1,096
Net profit for the year	**–**	**–**

The cost of goods sold was up on the prior-year level at EUR 47,428 (45,887) million. The increase was driven mainly by higher direct material and freight costs. In the previous year, the cost of goods sold included expenses in connection with the special items from the diesel issue.[1)]

AUDI AG consequently achieved a gross profit of EUR 4,074 (4,316) million in the past fiscal year.

Distribution costs declined to EUR 2,763 (3,425) million among other reasons because of year-on-year lower marketing costs and slightly reduced residual value risks.

Administrative expenses rose to EUR 412 (385) million as a result of higher personnel costs, among other factors.

The other operating result of AUDI AG climbed to EUR 1,723 (1,350) million in the past fiscal year. The Audi Transformation Plan (ATP) had a positive effect here, for example through the optimization of warranty processes. The prior-year figure was diminished by special items in connection with the diesel issue.[1)]

AUDI AG generated a financial result of EUR 2,137 (– 192) million in the 2019 fiscal year. The higher result from participations included a special dividend from Audi Hungaria Zrt., Győr (Hungary), in the amount of EUR 2,000 million. The financial result also benefited from the higher interest result compared with the previous year.

As a result of the effects presented here, AUDI AG posted a profit before tax of EUR 4,759 (1,664) million. After deduction of income tax expense, AUDI AG earned EUR 3,752 (1,096) million. Consequently, the return on sales after tax was 7.3 (2.2) percent.

1) In the 2019 fiscal year, the effects on earnings in connection with the diesel issue were of lesser importance overall when compared with the amounts reported as special items in the previous year.

NET WORTH

The balance sheet total of AUDI AG as of December 31, 2019, was above the previous year's level at EUR 41,634 (39,492) million.

Fixed assets declined to EUR 16,434 (16,772) million as a result of lower property, plant and equipment and financial investments.

In the 2019 fiscal year, the total capital investment of AUDI AG came to EUR 2,235 (3,316) million.

The development in current assets (including deferred expenses) to EUR 25,200 (22,720) million is attributable especially to the increase in receivables. While inventories rose, reflecting an increase in used car stocks, cash funds remained at the previous year's level.

Equity including the special reserve with an equity portion came to EUR 13,708 (13,708) million as of December 31, 2019, as in the previous year. This represents an equity ratio for AUDI AG of 32.9 (34.7) percent.

Borrowed capital (including deferred income) was up on the previous year's level at EUR 27,926 (25,784) million. While provisions increased slightly, liabilities for instance from the higher profit transfer to Volkswagen AG, Wolfsburg, were up significantly.

Condensed balance sheet, AUDI AG

EUR million	Dec. 31, 2019	Dec. 31, 2018
Fixed assets	16,434	16,772
Current assets incl. deferred expenses	25,200	22,720
Balance sheet total	**41,634**	**39,492**
Equity incl. special reserve with an equity portion	13,708	13,708
Provisions	17,454	17,341
Liabilities incl. deferred income	10,472	8,443
Balance sheet total	**41,634**	**39,492**

FINANCIAL POSITION

AUDI AG generated a cash flow from operating activities totaling EUR 4,065 (5,021) million in the 2019 fiscal year. Opposite effects from working capital contrasted with the much higher profit before tax.

In the same period, the cash used in investing activities attributable to operating activities, excluding the change in securities, amounted to EUR 1,859 (2,345) million. We significantly scaled back our capital investments in the 2019 fiscal year, especially in light of the Audi Transformation Plan (ATP), and increasingly prioritized the manufacturing structures for our new models, as well as the expansion and conversion of our sites.

The net cash flow before the change in cash deposits in marketable securities came to EUR 2,206 (2,676) million, with the result that all investments continued to be financed from own resources. Including cash deposits in securities, the cash used in investing activities came to EUR 1,924 (2,003) million, leading to a net cash flow of EUR 2,141 (3,018) million. Net liquidity as of December 31, 2019, was EUR 12,769 (12,446) million.

PRODUCTION

In the 2019 fiscal year, AUDI AG produced 1,161,228 (1,228,189) cars of the Audi brand.

It also manufactured a total of 579,950 (639,480) parts sets for local production in China.

DELIVERIES AND DISTRIBUTION

In the past fiscal year, 1,845,573 (1,812,485) cars of the Audi brand were delivered to customers worldwide. In the home market Germany, a total of 271,613 (260,456) vehicles were handed over to customers. Deliveries to international customers rose to 1,573,960 (1,552,029) cars.

EMPLOYEES

Workforce, AUDI AG

Average for the year	2019	2018
Ingolstadt plant	42,904	42,784
Neckarsulm plant	16,036	16,029
Employees	**58,940**	**58,813**
Apprentices	2,475	2,476
Workforce [1]	**61,415**	**61,289**

1) Of these employees, 1,945 (1,732) were in the passive stage of their partial retirement.

In the 2019 fiscal year, AUDI AG had an average of 61,415 (61,289) employees. As of the end of the year, the workforce fell slightly to 61,393 (61,497) employees.

RESEARCH AND DEVELOPMENT

On average, 11,717 (11,108) people were employed in the Research and Development area of AUDI AG in the past fiscal year.

Research and development activities amounted to EUR 4,102 (3,796) million.

PROCUREMENT

The cost of materials for AUDI AG climbed to a total of EUR 37,348 (35,595) million in the 2019 fiscal year, partly as a result of the change in the product mix.

REPORT ON RISKS AND OPPORTUNITIES

In essence, the risks and opportunities affecting the business performance of AUDI AG are the same as for the Audi Group.

*Read more about the **risks and opportunities** of the Audi Group on **pages 94 ff.***

ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) REPORT

To Audi, sustainability means future viability. We want to operate holistically, responsibly, transparently and with integrity when reaching corporate decisions – entirely in keeping with our strategic goal to be "consistently sustainable." This applies to our products and services, the entire value chain, responsibility for our employees, our social commitment as well as our corporate governance. We understand sustainability to mean the areas of Environment, Social (employees) and Governance, or "ESG" for short.

OVERVIEW OF REPORTED ESG TOPICS

Environment

- **Sustainability in our products**
  - BEV/PHEV
  - charging infrastructure
  - green electricity
  - sustainable combustion engines
  - efficiency technologies
  - CO_2 emission statistics for Audi models
- **Responsibility in the value chain**
  - sustainability in the supply chain
    - sustainability rating for suppliers
    - cooperation with suppliers
    - Global Battery Alliance
  - sustainability in production
    - carbon-neutral production
    - renewable energies
    - environmental management system
    - certifications
    - emissions reduction
    - resource efficiency
    - environmentally friendly technologies
- **Circular economy/resources**
  - Aluminum Closed Loop
  - Aluminium Stewardship Initiative (ASI)
  - battery recycling
- **Emissions trading**
- **Audi Environmental Foundation**

Social

- **Human resources policy of the Audi Group**
  - flexible forms of work
  - mobile work
  - strategic human resources planning
  - employee profit sharing
- **"Audi.Zukunft": Fundamental agreement on structural topics**
  - job guarantee until 2029
  - capacity planning
  - company pension plan
- **Corporate culture and collaboration**
  - corporate values and integrity
  - leadership principles
  - knowledge transfer and skills development
- **Training and development**
  - vocational training/dual studies
  - specialist and interdisciplinary training
  - professional development
- **Health management**
  - health activities
  - fitness programs
  - preventive programs
- **Work-life balance**
  - various working time models
  - leave for caregiving and childcare
- **Equal opportunities and diversity management**
  - member of Charta für Vielfalt e.V.
  - inclusion
  - diversity concept for management and Supervisory Board
  - quota of women

Governance

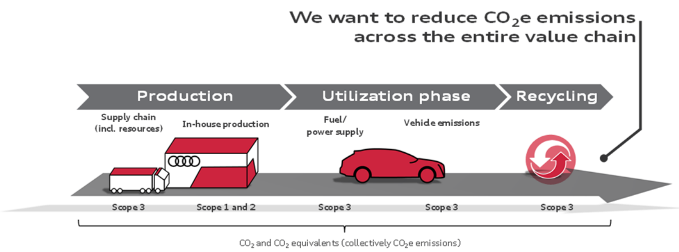
- **Disclosures required under takeover law**
  - capital structure
  - shareholders' rights and obligations
  - shareholder structure
  - appointment and dismissal of Board of Management
  - change of control
- **Corporate governance**
  - German Corporate Governance Code (GCGC)
    - responsible corporate governance
    - strengthening confidence among stakeholders
    - sustainable increase in corporate value
    - Declaration of Conformity GCGC
  - goals for the composition of the Supervisory Board
  - Group Management Declaration
    - corporate governance practices
    - methods and practices of the Board of Management and Supervisory Board
    - information on gender quotas
    - diversity concept for Board of Management and Supervisory Board
- **Communication and transparency**
- **Integrity and compliance**
  - Together4Integrity (T4I)
  - Audi Compliance Management System (CMS)
  - monitorship
- **Members of the Board of Management and their mandates**
- **Members of the Supervisory Board and their mandates**
- **Remuneration Report**
  - remuneration system/components
  - Board of Management remuneration
  - Supervisory Board remuneration

Read more online on the subject of ***sustainability*** *in the* ***Audi Sustainability Report*** *at* ***www.audi.com/sustainability-report****.*

ENVIRONMENT

Scarce resources, environmental damage, climate change and population growth – all challenges that society, politics and business need to face up to. To build a sustainable future, we are working together with our partners to preserve natural resources and avoid environmental pollution. In this way we assume social responsibility. The Volkswagen Group is committed to the two-degrees goal of the Paris Climate Agreement.

CO_2 emissions are of major relevance for sustainability. We therefore consider the CO_2 emissions of our vehicles not only during the utilization phase, but throughout the entire product life cycle – from the extraction of the raw materials right up to the recycling of our vehicles. In this way we are contributing to the Volkswagen Group goal of reducing vehicle-specific CO_2 emissions over the entire product life cycle by 30 percent by the year 2025 – compared with the reference year of 2015. Our long-term vision is one of carbon-neutral mobility. We want to achieve net-zero carbon emissions for the entire Company by 2050.



To this end, we have launched a far-reaching decarbonization program. The strategic figure of the decarbonization index (DCI) is used to measure the success of this program. To manage the decarbonization program, the DCI is also anchored at Audi as a strategic figure. The DCI quantifies the average emissions of CO_2 and CO_2 equivalents (collectively CO_2e) over the entire life cycle of our passenger car portfolio and expresses it in metric tons per vehicle. The DCI thus comprises both direct and indirect CO_2e emissions at the individual production sites (Scope 1 and 2) as well as all other upstream and downstream CO_2e emissions over the sold vehicles' life cycle – from raw materials extraction, through utilization of the vehicles, right up to their end-of-life recycling (Scope 3).

As a strategic figure, the DCI allows transparent, comprehensive tracking of progress towards climate-compatible mobility.

We developed and introduced the Sustainability Roadmap in the 2018 fiscal year. We are detailing our goals and benchmarks through this roadmap. It places the focus on climate, health and circular economy/resource preservation. Specific figures have been defined for these three goals, and their attainment is consistently monitored.

Based on the goals in our Sustainability Roadmap, we have defined the following main action areas for Audi:

- BEV (battery electric vehicle)/PHEV (plug-in hybrid)
- Sustainable combustion engines
- Responsibility in the value chain
- Circular economy/resources

The action areas are underpinned with specific projects that are also closely related to the future Audi product range. In the first instance the roadmap focuses on our products and value creation processes – but we are also working to gradually add social action areas to the roadmap.

/ SUSTAINABILITY IN OUR PRODUCTS

// BEV/PHEV

We are convinced that the future of mobility is electric, because electric powertrains play a pivotal role in cutting CO_2 emissions. We have therefore anchored the further development of alternative drive concepts in our strategic goal “consistently electric.” We are systematically expanding our product portfolio and the accompanying range of systems in the direction of electrification. Based on current market forecasts, Audi wants to achieve an NEV (new energy vehicle) share of around 40 percent by the 2025 fiscal year. This means that around 40 percent of Audi models built will be made up of fully-electric vehicles (BEV), models with plug-in hybrid drive (PHEV) or fuel cell vehicles (FCEV).

Production of electric vehicles, Audi brand

	2019	2018
Fully electric models (BEV)	46,243	2,526
Plug-in hybrid models (PHEV)	16,054	12,893
NEV share (in %)	**3.5**	**0.8**

The sales roll-out of our first series-production model with fully electric drive – the Audi e-tron – started in March 2019. It was joined at the end of the year under review by the Audi Q2 L e-tron, our first fully electric Audi model built in China and available on the Chinese market. The Audi e-tron Sportback – our second model in the e-tron car line – will be introduced on markets in stages starting in spring 2020. It will then be followed by the Audi e-tron GT, among other models.

For our full-size models, we are expanding the electric drive portfolio with plug-in hybrids (PHEV). Since the year under review we have been able to supply our customers with plug-in hybrids badged as “TFSI e” in the Audi A6, A7, A8, Q5 and Q7 car lines.

Our integrated approach to electric mobility also includes the further development of charging technologies and charging infrastructures. For example, to complement our product range we are developing a comprehensive network of fast-charging stations together with other manufacturers through IONITY GmbH, Munich. By the end of 2020, there are to be around 400 charging parks installed along Europe’s main transport routes. At the end of 2019, 200 of these charging parks were already in operation, with many more under construction. By offering the e-tron Charging Service since the market launch of the Audi e-tron, we are also providing access to the majority of public charging points in 24 countries throughout Europe. That means more than 135,000 charging points at present.

In addition, the Volkswagen Group is setting up more than 480 fast-charging parks with around 2,000 charging points along major traffic routes in the United States through its subsidiary Electrify America LLC, Reston (United States). This move is a component of the settlement agreement with the authorities in the United States as a consequence of the diesel issue. Most of the charging points were already in operation at the end of 2019.

An electric vehicle is only as clean as the power used to build and charge it. In the production phase, the manufacturing of the cells in particular is a very energy-intensive affair. Audi therefore requires its battery cell suppliers to use green electricity for cell manufacturing.

Equally, charging an electric vehicle with power that has not been generated carbon-neutrally will negatively impact its overall environmental footprint. For that reason, we are working on offering a green electricity supply for our customers. This is another building block that will help us to cut the life-cycle emissions of electric vehicles and promote emission-free mobility as part of an environmentally friendly ecosystem.

Looking ahead, we see potential in fuel cell technology (FCEV) as a complementary solution to our battery electric vehicles. With that in mind, we have set up fuel cell research and development activities at the competence center in Neckarsulm.

// SUSTAINABLE COMBUSTION ENGINES

Until production of combustion engines comes to an end, we believe it is important to continue development work on these drive concepts in parallel with developing electric vehicles, to create a comprehensive range for sustainable mobility. One solution, for instance, involves gradually equipping our models with mild-hybrid technology based on a 48-volt primary electrical system. The 48-volt primary electrical system opens up new potential for cutting fuel consumption.

Alongside innovative and sustainable drive technologies, there is scope for carbon-neutral synthetic fuels to improve our vehicles’ carbon footprint. These include Audi e-gas, for example.

Our long-term goal as a company is net-zero carbon emissions by 2050. To achieve that, as well as working on our products and the entire value chain, we are supporting innovations and technologies that make it possible to capture atmospheric CO_2. To this end, Audi is working on various projects, including in collaboration with Climeworks AG, Zurich (Switzerland). Climeworks has, for example, gone to market with commercial technology for carbon capture that makes it possible to remove CO_2 emissions from the atmosphere by physical means.

// CO_2 EMISSION STATISTICS FOR AUDI MODELS

Since 2009, passenger cars and light commercial vehicles have been subject to CO_2 limits in the European Union. The average target applicable until 2019 of 130 g/km in general for vehicles newly registered in their year of sale was tightened to 95 g/km in 2020. Taking the EU limit as the basis, a specific limit is calculated for each manufacturer based on the average vehicle weight of the manufacturer's fleet. This fleet limit value is based on the New European Driving Cycle (NEDC); from 2021 the fleet targets of the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP) will need to be met. To realize a technically comparable tightening in pursuit of the NEDC and WLTP fleet targets, the NEDC fleet limit values will transition to a WLTP target from 2021 by a legislatively specified process. This will depend for instance on manufacturer-specific differences between NEDC and WLTP. In the years 2025 and 2030, the fleet limit values will be cut by a further 15 and 37.5 percent respectively compared with the fleet limit values in the EU in 2021.

According to figures released by the European Commission, the average CO_2 emissions for newly registered Audi vehicles in the European Union (EU 28 [1)]) in 2018 was 129 g/km. Based on our provisional calculations, the average CO_2 emissions of newly registered Audi vehicles in the EU 28, calculated in the NEDC, is expected to be around 131 g/km in the year under review of 2019 [2)].

The successful introduction of the fully electric Audi e-tron was unable to compensate for the shifts in the model portfolio driven by supply and demand. A lower diesel mix in combination with a higher SUV share resulted in increased CO_2 emissions in the 2019 fiscal year. Fleet emissions are expected to come down significantly in 2020, among other things with the model changeover for the Audi A3 and a more extensive range of fully electric and plug-in hybrid vehicles.

/ RESPONSIBILITY IN THE VALUE CHAIN

// SUSTAINABILITY IN THE SUPPLY CHAIN

The supply chain plays a pivotal role in decarbonizing the entire vehicle life cycle, especially in the case of electric vehicles. We therefore want to assure carbon transparency in the supply chain and cut CO_2e emissions over the long term.

To that end we enter into dialogue with our partners so that together we can reduce CO_2 emissions along the entire value chain. At the end of 2018, Audi launched the CO_2 program in the supply chain, which envisages making savings at all levels. Initially, the focus is on parts that involve especially energy-intensive production – such as high-voltage batteries and aluminum components. By the end of 2019 we had run 30 CO_2 workshops with suppliers and drawn up 50 specific measures. These pave the way for saving around 1.2 metric tons of CO_2 per vehicle. The results show that emissions can be reduced in particular by closing material cycles, as well as using green electricity and with a higher proportion of secondary and recycled materials.

*Read more about **material cycles** on **page 50.***

We also only work with partners who share our values. For that reason, Audi already introduced a sustainability rating for suppliers in the 2017 fiscal year. This rating became mandatory throughout the Volkswagen Group in July 2019. Risks are examined on the one hand in the social and environmental areas, and on the other hand in the area of compliance. First, the supplier must fill out a standardized questionnaire that is recognized throughout the automotive industry. It contains the question, for example, of whether the company gives its employees training on sustainability topics, if it has an environmental policy and clearly communicates it, and whether the company has appointed a contact person for compliance topics. Ethically correct behavior is also a consideration.

1) EU 28 including Norway and Iceland

2) Provisional internal calculations for 2019 subject to confirmation by the EU. Based on regulation UN ECE R83/101 on the measurement of CO_2 emissions. According to EU Directive 1999/94/EC relating to the availability of consumer information on fuel economy, the official fuel consumption must be stated as determined by the approval authorities under the type approval procedure pursuant to Directive 80/1268/EEC, taking the UN-specified type approval approach of the NEDC (New European Driving Cycle) as the basis. Differences may occur in everyday practical operation as a result of different speed profiles, payloads or auxiliary systems, for example, because not all possible factors influencing consumption have been standardized for the type approval approach.

If the self-disclosure produces an unsatisfactory result, step two follows: an on-site check, conducted by an independent sustainability auditor. There have been over 2,000 such site visits to date; certain observations by auditors, such as non-compliance with statutory working hours or inadequately secured machinery, led to a negative rating for the supplier. That supplier is then expected to develop and implement a plan to rectify the violations. Implementation is checked.

In the general procurement area, a compliance check is also conducted for product categories that are rated as critical. This check is carried out by Procurement Strategy at Volkswagen together with Group Compliance.

Audi is also involved in various initiatives, thereby campaigning for the preservation of human and environmental rights in the supply chain together with other partners. For example, Audi is a member of the Global Battery Alliance. This addresses such matters as the upholding of social standards in the extraction of the raw materials for batteries – for instance protection of human rights – and solutions for the reuse of lithium-ion batteries.

*Read more about our commitment in the area of **Global Battery Alliance** or on the subject of **Aluminum (ASI)** on **page 50**.*

// SUSTAINABILITY IN PRODUCTION

/// CARBON-NEUTRAL PRODUCTION

Sustainable production is another aspect of decarbonizing the entire vehicle life cycle. For instance, we pursue the strategic goal of net-zero carbon emissions from all Audi production plants by 2025 – and that includes using 100 percent green electricity.

Our plant in Brussels (Belgium) is a role model in that respect. In 2018, we already achieved certification of the Brussels site as the first Audi plant with net-zero carbon emissions in time for the series-production start of the Audi e-tron. This achievement involved such measures as the site's switch to green electricity back in 2012 and the installation of the largest photovoltaic system in the region.

The next site with net-zero carbon emissions will be our plant in Győr (Hungary). By way of preparations, in the year under review we started work on building Europe's biggest solar rooftop installation with a peak output of 12 megawatts at Audi Hungaria's two logistics centers, covering an area of around 160,000 square meters. It will start generating renewable energy from the 2020 fiscal year.

/// ENVIRONMENTAL MANAGEMENT/ CERTIFICATION

The goals of the environmental management systems implemented at our sites include the effective and efficient use of the resources required. The environmental management systems furthermore promote our innovations aimed at making our products and processes more environmentally acceptable. With that objective in mind, we have installed the rigorous environmental management system of the European Union, EMAS (Eco-Management and Audit Scheme), at many European automotive plants of the Audi Group. The Ingolstadt, Neckarsulm, Győr (Hungary), Brussels (Belgium), Sant'Agata Bolognese (Italy) and San José Chiapa (Mexico) sites meet the requirements of energy management systems according to ISO 50001. Furthermore, our plants in Neckarsulm, Győr, Brussels, Sant'Agata Bolognese and our motorcycle plant in Bologna (Italy) as well as our Mexican plant in San José Chiapa are certified under the worldwide ISO 14001 environmental management standard. The same certification has been received for the Volkswagen Group production sites that we use in Bratislava (Slovakia), Martorell (Spain), São José dos Pinhais (Brazil) and Aurangabad (India) as well as for the Changchun and Foshan plants of the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China).

/// EMISSIONS REDUCTION AND RESOURCE EFFICIENCY

We are striving to reduce our environmental footprint in automotive production. We therefore need to consider and analyze other environmental performance indicators in addition to CO_2 emissions, and identify ways of improving them.

Another step towards making our sites environmentally friendly is more efficient water usage. At our plant in Mexico, for example, we have been using completely waste water-free production operations since 2018. We also reached a further milestone in the year under review. At the Ingolstadt site, the new process water supply center means that we are now able to return purified waste water into a cycle and, in this way, reduce the amount of fresh water required in production by up to one-third.

We are also working continuously to optimize our processes and develop new technologies for environmentally compatible production. For example, in the year under review, a new painting technique helped us to protect the environment and cut costs. Using the method known as overspray-free painting (OFP), Audi is now able to apply two different colors in the same painting process. OFP technology reduces consumption of paint and saves resources. There is also no longer any need for masking material.

/ *CIRCULAR ECONOMY/RESOURCES*

As part of the circular economy/resources action area, we want to conserve resources by reusing processed and raw materials in material cycles. This involves returning raw materials to the production process after use when vehicles reach the end of their lives. Recycling plays an important role here – because waste products can be reused as secondary raw materials. This preserves natural resources and reduces environmental impacts along the entire value chain.

In the use of aluminum we cut CO_2e emissions, for instance, by reusing the material according to the circular economy principle. Audi already introduced an “Aluminum Closed Loop” at the Neckarsulm location back in 2017. The aluminum sheet offcuts that are produced in the press shop are sorted by grade before they are sent back to the supplier, which then reprocesses them. Audi subsequently reuses these aluminum sheets in its production process. The recycling rate for this material is close to 100 percent. Compared with primary aluminum, up to 95 percent less energy is consumed during production. We will gradually roll out the Aluminum Closed Loop across other plants. Our plants in Ingolstadt and Győr will follow in the 2020 fiscal year.

Furthermore, for aluminum processing Audi is cooperating with a variety of stakeholders with the goal of establishing intelligent material cycles along the supply chain in order to minimize environmental risks and prevent wasting resources. Back in 2013, Audi signed up to the Aluminium Stewardship Initiative (ASI) to establish a global sustainability standard for aluminum. In 2018, Audi received the Performance Standard certificate from the ASI for its responsible use of aluminum for the battery housing of the Audi e-tron.

In addition, we want to systematically work together with partners who have also been certified by the ASI. For instance, since July 2019 the aluminum manufacturer Norsk Hydro ASA, Oslo (Norway), has also been supplying sustainable ASI-certified aluminum for the battery housing of the first fully electric model Audi e-tron – and in fact since the end of 2019 all its sheet aluminum has had this ASI certificate.

Audi is already working jointly with Volkswagen on concepts for the handling of used high-voltage batteries which we will increasingly be fitting in our electric vehicles in the future. A battery loses some of its charging capacity after years of use in a vehicle, becoming no longer fit for driving requirements. But there is scope for it to remain in service in stationary uses. We are testing the use of such batteries as stationary energy accumulators on a campus in Berlin, for example.

Ever since starting development work on its first fully electric car, Audi has been considering the recycling aspect for this product – because the efficient use of resources is part of our mission. In a strategic research partnership, we therefore tested a closed cycle for the components of high-voltage batteries. The result: Over 90 percent of the cobalt and nickel from the high-voltage batteries of the Audi e-tron can be recovered. These recovered raw materials can then be used in new battery cells. Audi thus saves precious resources and consequently cuts CO_2 emissions.

We are in addition working directly together with the manufacturers of high-voltage batteries. The aim of the partnership is to define our requirements for batteries so that they can be dismantled and reused with as little input as possible after the utilization phase.

/ *EMISSIONS TRADING*

The third trading period in the EU-wide trading of CO_2 emission rights has been running since 2013. This phase ends in 2020. The Ingolstadt, Neckarsulm, Brussels (Belgium) and Győr (Hungary) sites are subject to EU emissions trading rules. Unused certificates from previous years are sufficient to minimize the risk of a future shortfall in cover during the third trading period and of the potential costs that would arise for the Audi Group.

/ AUDI ENVIRONMENTAL FOUNDATION

Audi Stiftung für Umwelt GmbH, Ingolstadt – the Audi Environmental Foundation – is an active supporter of research into new technologies and scientific methods for a livable future. The declared goal of the nonprofit company is to help protect the environment through suitable projects and events, and to create and promote opportunities for sustainable action. The foundation is a catalyst and driver of the use of innovative technologies in environmental protection. The nonprofit projects it supports must influence at least one of the following three action areas:

- Responsibility:
  "To give something back to society and the environment"
- Enthusiasm:
  "To make people enthusiastic about the environment"
- Greenovation:
  "To advance and experience environmental technologies"

The foundation was set up by AUDI AG in 2009 as a fully-owned subsidiary and marked its tenth anniversary in the fiscal year. It is also part of Audi's social and environmental commitment.

*Read more about the **Audi Environmental Foundation** on the Internet at **www.audi-umweltstiftung.de**.*

SOCIAL – EMPLOYEES

/ *WORKFORCE*

Average for the year	2019	2018
Domestic companies [1]	60,083	59,754
of which AUDI AG	*58,940*	*58,813*
Ingolstadt plant	*42,904*	*42,784*
Neckarsulm plant	*16,036*	*16,029*
Foreign companies	**27,669**	**28,702**
of which Audi Brussels S.A./N.V.	*2,922*	*2,768*
of which Audi Hungaria Zrt.	*13,079*	*12,825*
of which Audi México S.A. de C.V.	*5,268*	*5,682*
of which Automobili Lamborghini S.p.A.	*1,788*	*1,643*
of which Ducati Motor Holding S.p.A.	*1,290*	*1,278*
Employees	**87,752**	**88,456**
Apprentices	2,585	2,582
Employees of Audi Group companies	**90,337**	**91,038**
Staff employed from other Volkswagen Group Companies not belonging to the Audi Group	446	439
Workforce Audi Group	**90,783**	**91,477**
Workforce Audi Group at year-end	**90,640**	**91,674**

1) Of these employees, 1,945 (1,732) were in the passive stage of their partial retirement.

Employee structural data (AUDI AG)

		2019	2018
Average age [2) 3)]	Years	41.5	41.2
Average length of service [3)]	Years	17.9	17.5
Proportion of women [2) 3)]	Percent	15.0	14.9
Proportion of academics (indirect employees) [3)]	Percent	51.4	50.9
Proportion of foreign nationals	Percent	8.3	8.4
Proportion of people with severe disabilities	Percent	6.7	6.5
Contracts to workshops for people with disabilities	EUR million	7.3	7.9
Frequency of accidents [4)]		6.2	5.6
Attendance rate [3)]	Percent	95.3	95.2
Savings through Audi Ideas Program	EUR million	101.3	109.1
of which implementation rate	*Percent*	*54.4*	*55.5*

2) Audi Group
3) Excluding apprentices
4) The accident frequency figure indicates how many industrial accidents involving one or more days' work lost occur per million hours worked are reported.

In the 2019 fiscal year, the average level of the Audi Group workforce was 90,783 (91,477) employees. There were 90,640 (91,674) employees at the end of 2019. The decrease is largely due to the deconsolidation of multi-brand sales companies, the management responsibility for which Volkswagen AG, Wolfsburg, assumed with effect from January 1, 2019. As planned, the number of employees at Audi México S.A. de C.V., San José Chiapa (Mexico), decreased following the successful ramp-up of the plant in the last two years.

/ *THE AUDI GROUP'S HUMAN RESOURCES POLICY*

As part of our human resources policy, we create a needs-based human resources structure as well as an attractive social and working environment for our workforce. Furthermore, a fundamental agreement on an employment guarantee up until the end of 2029 was agreed for the workforce of AUDI AG. The very cornerstones of the working world at Audi include flexible forms of work and the entitlement to mobile work as well as agile structures, processes and models for collaboration. This freedom introduces flexibility in a global context, encourages people to be innovative and helps employees strike a better balance between their work and personal lives. We use strategic human resources planning to make employee competences and quantity structures transparent, then apply a control process to match these to a quantitative and qualitative target vision for the future workforce. This enables us to identify surpluses and shortages in cover promptly, plan our human resources requirements sustainably and constructively, identify training requirements for our employees and prepare employees for their future tasks. Enabling employees to participate in the Company's success is a further important component of our human resources policy. There are also specific profit-sharing arrangements for a large number of domestic and foreign subsidiaries.

/ *"AUDI.ZUKUNFT"*

The Audi Transformation Plan (ATP) is our response to change in the automotive industry through which we seek to safeguard our financial future. With an eye to the future success of our company, in November 2019 we also reached a fundamental agreement on structural matters with the employee representatives within the framework of "Audi.Zukunft." The decisions relate especially to the optimization of the strategic production capacity at the two German sites and socially responsible adjustment of jobs along the demographic curve, while at the same time extending job guarantees until the end of 2029. The approximately EUR 6 billion freed up in this way will secure the strategic target corridor for the operating return of 9 to 11 percent and go towards the implementation of future projects such as electrification and digitalization.

The following items in specific were agreed:

- Employment guarantee until December 31, 2029 (no forced layoffs)
- Cuts of up to 9,500 jobs by 2025 by socially responsible means (e.g. employee turnover/demographics, early-retirement program); at the same time up to 2,000 new expert positions will be created
- Number of apprentices and dual studies students to be kept constantly high for next three years
- Profit share: If Audi is able to build on the financial results of previous years, the average profit share will remain at the high level of past years. If the Audi Group's operating profit is significantly higher than in previous years, negotiations will be held on the appropriation of the increment.
- Improvements to company pension plan with additional pension provisions of up to EUR 50 million annually from the year 2021
- Adjustment of annual plant capacity in Ingolstadt to 450,000 vehicles and in Neckarsulm to 225,000 vehicles, with production-optimized operation
- Gradual equipping of the two German sites for electric vehicles

/ CORPORATE CULTURE AND COLLABORATION

One aim of our corporate strategy, as expressed in "consistently team," is to promote cultural change at Audi. At Audi, we strive for cooperation on the basis of our four corporate values: appreciation, openness, responsibility and integrity. We promote a leadership and collaborative culture that is in keeping with these values, the Volkswagen Group Essentials and the Audi leadership principles. True to one of the Group Essentials "WE not ME," Audi wants to become synonymous with trust-based cooperation. Various programs, measures and platforms offer possibilities for knowledge transfer, skills development and an innovative corporate culture with the objective of jointly shaping the future.

/ TRAINING AND DEVELOPMENT

Around 800 young people embarked on an apprenticeship at the German sites in 2019. As well as the apprentices, dual studies students started out on their career paths once again at the Ingolstadt and Neckarsulm sites. Vocational training today places particular emphasis on topics of future relevance such as electric mobility and digitalization. For example, all prospective automotive mechatronics technicians already learn about handling high-voltage technology and connected in-vehicle systems as part of their training.

Key expertise relating to the topics of training and development are pooled at Audi Akademie. It organizes specialist and interdisciplinary training for employees and managers, and assists the various areas of the Company in an advisory capacity. In order to handle the transformation at Audi successfully, the budget for professional development was already increased by one-third in 2018 to EUR 80 million annually. By 2025, AUDI AG will therefore invest a total of more than EUR 500 million in professional development for the Audi workforce.

/ HEALTH MANAGEMENT

A fundamental goal of our occupational health management is to maintain and promote the health of our employees. Health is a precious personal commodity, but also a crucial requirement if an enterprise is to remain competitive. We have anchored all the relevant measures and programs in a works agreement. Our holistic approach addresses a variety of topics ranging from workplace design and providing advice on health-appropriate working assignments to gradual reintegration after lengthy absences. We also offer comprehensive preventive programs. In doing so, Audi goes well beyond what is required by law. With the communication campaign "Everyone has a psyche. Why not talk about it?" we inform employees about mental illnesses and mental health, and about the wide-ranging internal support available. We can also draw on a well-established external network for offering our employees treatment and advice.

In addition, we offer various health activities and fitness programs to sensitize and motivate our employees on health matters. We are also providing these in digital formats. In addition, we are extending health protection arrangements at the international locations.

Another mainstay of occupational health management is the Audi Checkup. The aim of this individual, voluntary healthcare program is the prevention and early detection of health risks. Around 90 percent of employees regularly take part in the program, which has been in existence since 2006.

/ JOB AND PERSONAL LIFE

We offer a large number of working time models and the option of mobile work to improve the work-life balance. Equally, our employees can take time off for personal reasons – for instance, to look after their children or to care for close relatives. Since 2019, the pay deal for the German sites has additionally enabled all eligible employees at AUDI AG to convert their collectively agreed extra pay into an additional six or, subject to certain criteria, eight days' paid leave.

/ DIVERSITY MANAGEMENT

To us, diversity is an important prerequisite for competitiveness and sustained corporate success. The aim is to create an environment that promotes the individuality of each person in the interest of the Company. Diverse mindsets, competencies and experience allow for creativity, innovation and dynamism. To send out a signal, in 2019 Audi progressed from signatory to official member of Charta für Vielfalt e.V. – the German Diversity Charta. There are currently people from around 100 nations working at AUDI AG. Their cultural backgrounds and personalities enrich the Company and lend momentum to the current transformation of the corporate culture. As a responsible employer, we also actively push for inclusion. For example, we employ around 3,500 severely disabled people and people with an equivalent status at our German sites in Ingolstadt and Neckarsulm. Audi also supports the Prout-at-Work foundation. As a sustainable enterprise, we create awareness of diversity, advocate equal opportunities and are receptive to all people, whatever their sexual orientation or gender identity. There are also diversity concepts for the Supervisory Board and management of AUDI AG.

*Read more online about **the diversity concepts for the Board of Management and Supervisory Board** of AUDI AG pursuant to Section 289f, Para. 2, No. 6 of the German Commercial Code (HGB) in the Group Management Declaration at **www.audi.com/corporate-management**.*

A major focus of our human resources strategy is to recruit and promote well-qualified women.

The Company has set itself targets for women in leadership positions for the time horizon up until 2021: By the end of 2021, women should comprise 8 percent of the first management tier below the Board of Management and 16 percent in the second management tier.

Proportion of women at AUDI AG

in %	2019	2018
Total proportion of women	15.6	15.4
Apprentices	25.5	27.2
of which industrial apprentices	*22.3*	*24.2*
of which clerical trainees	*80.6*	*81.1*
Management	11.9	10.9

The proportion of women on the Board of Management of AUDI AG is also to be increased in the long term. The Supervisory Board of AUDI AG decides each year on the target quota of women on the Board of Management. Up until December 31, 2019, the Supervisory Board of AUDI AG had resolved a target quota of zero, for the sake of formality. At the end of 2019, the Board of Management included one woman, Hildegard Wortmann, Board Member for Marketing and Sales. In the year under review, the target quota for the proportion of women on the Board of Management up until December 31, 2020, was resolved to be 14.3 percent, for formality's sake.

In addition, the legally prescribed quota of 30 percent applies to the Supervisory Board. As of December 31, 2019, there were 35 percent women on the Supervisory Board of AUDI AG.

GOVERNANCE

/ DISCLOSURES REQUIRED UNDER TAKEOVER LAW

The following disclosures under takeover law are made pursuant to Section 289a and Section 315a of the German Commercial Code (HGB).

// CAPITAL STRUCTURE

On December 31, 2019, the subscribed capital of AUDI AG remained unchanged at EUR 110,080,000 and comprised 43,000,000 no-par bearer shares. Each share represents a notional share of EUR 2.56 of the subscribed capital.

// SHAREHOLDERS' RIGHTS AND OBLIGATIONS

Shareholders enjoy property and administrative rights. The property rights include, above all, the right to a share in the profit (Section 58, Para. 4 of the German Stock Corporation Act [AktG]) and in the proceeds of liquidation (Section 271 of the German Stock Corporation Act), as well as a subscription right to shares in the event of capital increases (Section 186 of the German Stock Corporation Act). The administrative rights include the right to participate in the Annual General Meeting and the right to speak, ask questions, table motions and exercise voting rights there. Shareholders may assert these rights in particular by means of a disclosure and avoidance action. Each share carries an entitlement to one vote at the Annual General Meeting. The Annual General Meeting elects the members of the Supervisory Board to be appointed by it, as well as the auditor; in particular, it decides on the ratification of the acts of members of the Board of Management and Supervisory Board and, if necessary, on amendments to the Articles of Incorporation and Bylaws, as well as on capital measures, on authorizations to acquire treasury shares and on the conducting of a special audit, the dismissal of members of the Supervisory Board within their term of office and on liquidation of the Company. The Annual General Meeting normally adopts resolutions by a simple majority of votes cast, unless a qualified majority is specified by statute.

A control and profit transfer agreement exists between AUDI AG and Volkswagen AG, Wolfsburg, as the controlling company. This agreement permits the Board of Management of Volkswagen AG to issue instructions. The profit after tax of AUDI AG is transferred to Volkswagen AG. Volkswagen AG is obliged to make good any loss. All Audi shareholders (with the exception of Volkswagen AG) receive a compensatory payment in lieu of a dividend. The amount of the compensatory payment corresponds to the dividend that is distributed in the same fiscal year to Volkswagen AG shareholders for each Volkswagen ordinary share.

// CAPITAL INTERESTS EXCEEDING 10 PERCENT OF THE VOTING RIGHTS

Volkswagen AG, Wolfsburg, holds around 99.64 percent of the voting rights in AUDI AG. For details of the voting rights held in Volkswagen AG, please refer to the Management Report of Volkswagen AG.

// STATUTORY REQUIREMENTS AND PROVISIONS UNDER THE ARTICLES OF INCORPORATION AND BYLAWS ON THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE BOARD OF MANAGEMENT

The appointment and dismissal of members of the Board of Management are stipulated in Sections 84 and 85 of the German Stock Corporation Act (AktG). Members of the Board of Management are accordingly appointed by the Supervisory Board for a period of no more than five years. A renewal of the term of office, in each case for no more than five years, is permitted. Section 6 of the Articles of Incorporation and Bylaws further stipulates that the number of members of the Board of Management is to be determined by the Supervisory Board and that the Board of Management must comprise at least two persons.

// AUTHORIZATIONS OF THE BOARD OF MANAGEMENT IN PARTICULAR TO ISSUE NEW SHARES AND TO PURCHASE TREASURY SHARES

According to stock corporation regulations, the Annual General Meeting may grant authorization to the Board of Management for a maximum of five years to issue new shares. The meeting may authorize the Board of Management, again for a maximum of five years, to issue convertible bonds on the basis of which new shares are to be issued. The extent to which the shareholders have an option on these new shares is likewise decided upon by the Annual General Meeting. The acquisition of treasury shares is regulated by Section 71 of the German Stock Corporation Act (AktG). No resolutions to this effect were passed by the Annual General Meeting of AUDI AG in the 2019 fiscal year.

// KEY AGREEMENTS BY THE PARENT COMPANY THAT ARE CONDITIONAL ON A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID

AUDI AG is party to the shareholder agreement concerning There Holding B.V., Rijswijk (Netherlands), which is the majority shareholder of the HERE Group. Under the shareholder agreement, in the event of a change of control at a party to the agreement, that party must offer the shares it holds directly or indirectly in There Holding B.V. to the other shareholders for purchase. In the case of AUDI AG, a change of control occurs if a person acquires or loses control over AUDI AG, wherein control is defined as (i) holding or having control over more than 50 percent of the voting rights, (ii) the scope for controlling more than 50 percent of the voting rights that can be exercised at Annual General Meetings on all or virtually all matters, or (iii) the right to determine the majority of the members of the Board of Management or Supervisory Board. Furthermore, a change of control occurs if competitors of the HERE Group or certain potential competitors of the HERE Group from the technology industry acquire at least 25 percent of AUDI AG. If none of the other shareholders takes on these shares, the other shareholders have the right to resolve the dissolution of There Holding B.V.

Other than the above, AUDI AG has not reached any key agreements that are conditional on a change of control following a takeover bid. Nor has any compensation been agreed with members of the Board of Management or employees in the event of a takeover bid.

/ CORPORATE GOVERNANCE

Corporate governance refers to the responsible and transparent management and supervision of a company geared to long-term value creation. We believe solid corporate governance is a vital prerequisite for being able to sustainably increase our corporate value. It helps to reinforce the confidence of our shareholders, customers, employees, business partners, investors and further stakeholders in our work, and to meet the growing demand for information among national and international stakeholders.

// GUIDELINE FOR SUCCESSFUL CORPORATE GOVERNANCE – THE GERMAN CORPORATE GOVERNANCE CODE

Listed German companies take the German Corporate Governance Code (GCGC) as their benchmark. The GCGC makes recommendations and suggestions on sound, responsible corporate governance and control. The Government Commission set up for that purpose has defined the content of the GCGC based on important regulations as well as on nationally and internationally recognized standards of corporate governance. It reviews these regularly in the light of current developments and adapts them as necessary. The Board of Management and Supervisory Board of AUDI AG base their work on the recommendations and suggestions of the GCGC.

// IMPLEMENTATION OF THE RECOMMENDATIONS AND SUGGESTIONS OF THE GCGC

The recommendations of the “Government Commission on the German Corporate Governance Code” announced by the Federal Ministry of Justice on April 24, 2017, in the official section of the Federal Gazette (Bundesanzeiger), in the version dated February 7, 2017, were implemented in the period since the most recent Declaration of Conformity of November 29, 2018, with the supplements dated February 21, 2019, and September 19, 2019, and continue to be implemented with the exception of the following numbers:

- 4.2.3, Para. 2, Sentence 6 (amount of remuneration capped with maximum levels for short-term variable remuneration, amount of remuneration capped with maximum levels for total remuneration),
- 5.3.2, Para. 3, Sentence 2 (independence of the Chairman of the Audit Committee),
- 5.3.3 (Nomination Committee),
- 5.4.1, Para. 6 (disclosure regarding election recommendations),
- 5.4.5, Sentence 2 (no more than three Supervisory Board mandates in non-group listed corporations or similar entities),
- 5.4.6, Para. 2, Sentence 2 (performance-related remuneration of the Supervisory Board).

The deviation from the recommendation pursuant to No. 4.2.3, Para. 2, Sentence 6 is due to the fact that while the amount of remuneration capped with maximum levels has been defined for the share-based, long-term variable remuneration component, one has not been defined for the short-term variable remuneration component. The Supervisory Board deems it appropriate to forgo defining a limit since the target parameters which are chiefly dependent on the operating result (operating return on sales and return on investment) directly reflect the financial situation, and therefore, in the case of an especially strong result, higher short-term variable remuneration and consequently also higher total remuneration is justified. The Supervisory Board is of the opinion that setting a predefined cap for short-term variable remuneration or total remuneration would detract from the intended incentive of achieving especially good results. In the event that an especially good result is due to extraordinary developments, the Supervisory Board has the authority to impose a limit at its discretion in accordance with the principle of appropriateness.

According to the recommendation No. 5.3.2, Para. 3, Sentence 2, the Chairman of the Audit Committee should, among other things, be “independent.” A lack of the recommended independence could potentially be inferred from the Audit Committee Chairman’s membership of the Supervisory Board of Volkswagen AG, Wolfsburg, and of the Board of Management of Porsche Automobil Holding SE, Stuttgart. The Board of Management and Supervisory Board believe that these activities neither represent a conflict of interest nor interfere with the work of the Audit Committee Chairman. The exception is declared merely as a precaution.

With regard to No. 5.3.3 (Nomination Committee): The Supervisory Board is of the opinion that a nomination committee merely increases the number of committees without noticeably improving its work as a corporate body.

Regarding the recommendation set forth in No. 5.4.1, Para. 6 on the disclosure of certain circumstances when the Supervisory Board makes election recommendations to the General Meeting, the requirements in the Code are vague and not clearly defined. An exception is therefore declared merely as a precaution, while the Supervisory Board will endeavor to fulfill the requirements of the recommendation in the Code.

Trading of the shares of TRATON SE on the Regulated Market of the Frankfurt Stock Exchange and of Nasdaq Stockholm commenced on June 28, 2019. Since then, the Audit Committee Chairman of the Supervisory Board of AUDI AG has served on the Supervisory Boards of three listed companies – AUDI AG, Volkswagen AG and TRATON SE, Munich – as well as on the Supervisory Board of Bertelsmann SE & Co. KGaA, Gütersloh. He also serves on the Board of Management of the listed company Porsche Automobil Holding SE as its Chairman. AUDI AG, Volkswagen AG and TRATON SE do not constitute a joint group with Porsche Automobil Holding SE, Stuttgart. Because it cannot be ruled out that the Supervisory Board mandate for Bertelsmann SE & Co. KGaA, Gütersloh, will involve comparable requirements to a Supervisory Board mandate for a listed company and the exact method of counting mandates is unclear, as a precaution the Board of Management and Supervisory Board declare an exception to No. 5.4.5 Sentence 2 of the Code (no more than a total of three Supervisory Board mandates in non-group listed corporations or similar entities). However, we are convinced that the Chairman of the Audit Committee of the Supervisory Board of AUDI AG has sufficient time available to exercise his mandates within the Volkswagen Group.

The Board of Management and Supervisory Board are of the opinion that the current regulation on remuneration in Section 16 of the Articles of Incorporation and Bylaws of AUDI AG contains a performance-related component for the members of the Supervisory Board which also promotes long-term corporate development. In light of the vagueness of the recommendation from No. 5.4.6, Para. 2, Sentence 2 of the Code and the as yet unclarified scope of a performance-related remuneration component in respect of long-term corporate development, the Board of Management and Supervisory Board declare the deviation merely as a precaution.

*Read online the current **joint declaration of the Board of Management and the Supervisory Board of AUDI AG** on the recommendations of the German Corporate Governance Code at **www.audi.com/cgc-declaration**.*

*Read more online about the **composition of the Supervisory Board committees** at **www.audi.com/committee.***

// GOALS FOR THE COMPOSITION OF THE SUPERVISORY BOARD

Taking into account the specific situation of the Company, the business purpose, the size of the Company and the proportion of international business activities as well as the ownership structure, the Supervisory Board heeds the following elements when working towards its target composition:

- At least two seats on the Supervisory Board for persons who fulfill the criterion of internationality to a particular extent,
- At least one shareholder seat on the Supervisory Board for persons with no potential conflicts of interest, in particular as a result of performing an advisory or executive function at customers, suppliers, lenders or other third parties,
- At least one shareholder seat on the Supervisory Board for independent Supervisory Board members within the meaning of No. 5.4.2 of the Code (in this case, currently Dr. Julia Kuhn-Piëch),
- At least one seat on the Supervisory Board for persons who contribute to the Board’s diversity in particular.

The Supervisory Board as an overall body must possess the requisite expertise and competences to be in a position to perform its supervisory function and assess and monitor the transactions that the Company conducts. To that end, the members of the Supervisory Board must as a whole be familiar with the sector in which the Company operates.

Core competences and requirements for the Supervisory Board as an overall body include in particular:

- Knowledge of or experience in the manufacturing and sale of vehicles and powertrains of all kinds or of other technical products,
- Knowledge of the automotive industry, business model and market, as well as product expertise,
- Knowledge of the Research and Development area, in particular in the technological fields that are relevant for the Company,
- Experience in positions of entrepreneurial leadership or on Supervisory Boards of major corporations,
- Knowledge of the governance, legal and compliance areas,
- In-depth knowledge of the fields of finance, accounting or financial audit,
- Knowledge of the capital market,
- Knowledge of the areas of Controlling/Risk Management, Internal Control System,
- Human resources competence (in particular searching for and recruiting Board of Management members, successor process) as well as knowledge of incentive and remuneration systems for the Board of Management,
- In-depth knowledge of or experience in the areas of co-determination, employee affairs and the working world in the Company.

The current composition of the Supervisory Board satisfies the competence profile.

// GROUP MANAGEMENT DECLARATION ON THE INTERNET

In addition to the commitment to the GCGC, as part of the Combined Management Report Audi publishes on its website the Group Management Declaration pursuant to Section 315d of the German Commercial Code (HGB) in conjunction with Section 289f of the German Commercial Code (HGB). The contents are permanently available online and give priority to the following:

- Declaration of Conformity by the Board of Management and Supervisory Board pursuant to Section 161 of the German Stock Corporation Act (AktG): This is the current joint declaration of the Board of Management and Supervisory Board of AUDI AG on the implementation of the recommendations and suggestions of the German Corporate Governance Code.
- Information on corporate governance practices: These include, for example, the Audi Code of Conduct, Corporate Policies, whistleblower system and various guidelines.
- Methods and practices of the Board of Management and Supervisory Board as well as the committees and bodies set up
- Information on gender quotas
- Information on the diversity concept for the Board of Management and Supervisory Board

*Read more online about the **Group Management Declaration** at **www.audi.com/corporate-management**.*

// REMUNERATION REPORT

Detailed explanations on the remuneration system and the individual remuneration of the members of the Board of Management and Supervisory Board can be found in the Remuneration Report of the Combined Management Report.

*Read more about the **Remuneration Report** on **pages 69 ff.***

/ COMMUNICATION AND TRANSPARENCY

Transparency and open dialogue are essential components of our capital market communications. For example, we offer well-founded information and background reports on our operational and strategic corporate development as well as access to our financial publications on our website www.audi.com/investor-relations. We announce publication dates as well as the date of the Annual General Meeting of AUDI AG in our Financial Calendar. This can be accessed at any time on our website at www.audi.com/financial-calendar.

The shareholder structure of AUDI AG and further information about Audi shares are permanently available at www.audi.com/shares.

As part of the Audi investor relations activities in the 2019 fiscal year, we again provided institutional investors, analysts, shareholders and other stakeholders with timely information about the economic development and planned future direction of our Company. We maintained intensive contact with the various capital market operators in a large number of one-to-one discussions, investor field trips and capital market events (Audi Investor & Analyst Days). These presented investors and analysts with opportunities to hold talks with various members of the Board of Management and top management representatives. All presentations given in connection with such events were published shortly afterwards on our Investor Relations website.

To provide transparent, target-group-specific information for stakeholders, Audi is adopting a new format of Executive Summary for the 2019 fiscal year. It is conceived as a distilled form of the magazine and financial sections of the previous Audi Annual Report, and informs shareholders, investors and analysts as well as all stakeholders of AUDI AG about the current financial situation of the Company, provides background information and explains inter-dependencies along with the strategic corporate goals. This publication integrates parts of the financial report and enhances them with a strategic classification – consistently focused and transparent.

The Executive Summary can be called up online at www.audi.com/executive-summary. The latest news and background information on finance-specific topics can also be found throughout the year in the online format “Talking Business” at www.audi.com/talking-business.

The Audi Annual General Meeting provides shareholders with a forum for direct contact and dialogue with the Company, as well as an opportunity to exercise their rights as shareholders. We publish information about the Audi Annual General Meeting on our website at www.audi.com/annual-general-meeting. Its convening and the agenda as well as any countermotions received can be viewed there along with other information. The speeches of the Board of Management members and the results of votes at the various Annual General Meetings are also published there. In addition, our shareholders and other interested parties can follow the introductory remarks of the Chairman of the Supervisory Board and the speeches of the Board of Management members live on the Internet. Registered shareholders may exercise their voting rights in person at the Annual General Meeting. Alternatively, they may exercise their right to vote through their chosen proxy or by using a proxy appointed by the Company and bound by their instructions.

Under Article 17 of the Market Abuse Regulation (MAR), all domestic issuers of financial instruments are obliged to publish and disclose insider information – where it has a direct bearing on them – without delay. This information is published on the Internet at www.audi.com/ad-hoc in the form of ad hoc announcements by the Company.

Reporting of Directors’ Dealings as defined by Article 19 of the Market Abuse Regulation (MAR) can be viewed at www.audi.com/directors-dealings. Further information about the Audi Group, reporting of voting rights according to Sections 33 ff. of the German Securities Trading Act (WpHG) and other legal matters can be found at www.audi.com/corporate-governance.

The mandates of the members of the Board of Management and Supervisory Board to supervisory bodies are given on pages 65 ff. of this financial report.

*Read more about our **capital market communications** at **www.audi.com/investor-relations**.*

/ INTEGRITY AND COMPLIANCE

Acting out of conviction (integrity) as well as compliance with laws and regulations are the basis of our corporate activity and have top priority in the Audi Group. Integrity and compliance are firmly embedded in the “consistently sustainable” mission field of our corporate strategy. They form the basis for the high reputation of the Group and its brands, for the trust of its customers and business partners, for the wellbeing of its employees as well as for sustainable economic success. Ultimately, integrity and compliance are also intended to ensure that high financial damage from fines, disgorgement of profit and liability for damages or criminal investigations does not occur. To assure integrity and compliance with laws and regulations, the Audi Group in the first instance adopts a preventive approach. Its aim is to preclude any possible breaches of the rules.

// “TOGETHER4INTEGRITY” (T4I)

“Together4Integrity” is the integrity and compliance program of the Volkswagen Group and was introduced at AUDI AG back in 2018. The program is based on the principles of the Ethics & Compliance Initiative (ECI), a globally recognized standard for ethical corporate principles. T4I will be rolled out across the entire Volkswagen Group by 2025. The ECI principles feed into a toolkit together with the Monitor’s recommendations. It contains an abundance of division-specific and general initiatives that reinforce compliance and integrity and promote the change of culture. In the compliance and integrity area, these include above all the Code of Conduct and the corresponding training measures, along with the whistleblower system. The Code of Conduct gives employees a firm handle on how to operate with integrity, thus also advancing the change of culture at Audi. A large number of the T4I measures have already been implemented at the German sites of AUDI AG. At the same time, AUDI AG is responsible for rolling out the T4I program at its subsidiaries and participations.

// COMPLIANCE MANAGEMENT SYSTEM IN THE AUDI GROUP

A Compliance Management System (CMS) refers to the principles, measures, processes and structures of an enterprise to assure permanent compliance with the laws and internal regulations by corporate bodies, employees and third parties acting on behalf of an enterprise. In addition to AUDI AG, around 50 subsidiaries and participations worldwide were in the focus of the CMS in the year under review, with predominantly local compliance officers acting as multipliers. The CMS is comprised of core elements that are described below:

Audi Compliance Management System (CMS)

/// COMPLIANCE GOALS

It is the responsibility of the Board of Management and managers of the Audi Group to anchor compliance in business processes and decisions as an integral aspect, by promoting a Company-wide compliance and corporate culture. The Board of Management as well as the managers are fundamentally responsible for identifying, evaluating and managing risks, and for compliance.

The Audi CMS prevents systematic misconduct, business-related criminal acts and loss of reputation. It adopts a preventive approach, thus reinforcing compliant behavior by the Board of Management, managers and employees.

/// COMPLIANCE AND CORPORATE CULTURE

At Audi, we interpret integrity as acting in a responsible and entrepreneurial way that embraces general ethical standards and our corporate values. Behaving with integrity stems from the personal conviction of every individual to do the right thing and to adhere to the right principles regardless of emotional, economic or social pressure. This sets integrity apart from compliance, which we take to mean adhering to statutory regulations, as well as to internal corporate policies and our Code of Conduct. Compliance is about protecting employees and companies. In our under standing, an organization in which employees operate in a legally compliant way and internal policies and codes of conduct are heeded can be considered a reliable and trustworthy partner. Integrity and compliance therefore constitute important aspects of governance for our Company.

Distinction between integrity and compliance in the Audi Group

	Integrity	Compliance
Motivation	Mainly intrinsic motivation (out of conviction/reason)	Mainly external pressure (e.g. through legislation)
Goal	Promotion of moral behavior	Prevention of unlawful actions
Approach	Values, corporate culture	Clear rules, policies, controls

We also attach particular importance to our corporate culture. Culture means the sum total of all values according to which we work together. It is evident in the way people, teams and departments within the company treat each other and work together. We believe every company needs not only ideals, but also shared cultural values. Our four corporate values at Audi provide the basis: appreciation, openness, responsibility and integrity.

Our integrity program is designed to further strengthen the corporate culture at Audi. It places the spotlight on a joint dialogue on the topic of integrity. We want to promote the open sharing of ideas within the Company, live a corporate culture based on trust and firmly embed moral, values-based action at Audi.

The topic of integrity was given further exposure at Audi in 2019 through regularly recurring events and dialogue-based communication measures. For instance, under the motto "Integrity is... plain talking, concrete action," various campaigns and offerings provided ideas on how behaving with integrity can be strengthened in the corporate context. In addition to a video message by Chairman of the Board of Management Abraham Schot, a series of events took place at the Ingolstadt and Neckarsulm plants at which the Audi Chief Compliance Officer, among others, explained his stance on integrity in everyday situations to employees. The purpose of the campaigns was on the one hand to raise awareness of integrity in general, and on the other hand to start a Company-wide dialogue on how to further reinforce steadfast, credible and sincere action at Audi.

A Company-wide network of integrity ambassadors was also established in the year under review. As the interface with Integrity Management, the ambassadors help to communicate integrity topics to specific target groups in their divisions and serve as a point of contact within the division for employees on integrity questions. In 2019, over 50 ambassadors were selected and suitably qualified for their tasks in Ingolstadt and Neckarsulm.

To promote the dialogue across hierarchical boundaries and help Audi employees connect over compliance and integrity topics, four fireside chats were held in 2019. Board of Management members, managers and employees from all divisions came together at these events to discuss integrity in everyday working life and its significance for Audi's success.

In addition to the aforementioned integrity measures, employees and managers were also sensitized to the subject of integrity through existing communication channels, events (for example, presentations in the "Denkraum Integrität" community on the internal social media platform Audi team, news reports on the Audi intranet) as well as through departmental workshops on the subject of integrity.

The Volkswagen Group Code of Conduct is firmly established Group-wide, and therefore also at Audi. It is the key instrument for reinforcing awareness of correct behavior among the workforce, assisting employees wherever questions concerning correct behavior arise, and putting them in touch with the right person in cases of doubt. The framework is permanently available on the intranet for employees and on the Internet for third parties, and is a topic of ongoing communication within the Company.

Employees from all hierarchic levels receive training on the Code of Conduct on a regular basis. The training has been mandatory throughout the Company since 2018. The Code of Conduct is also a fixed component of operational HR processes. New employees are handed a copy of the Code of Conduct as part of their induction. The reference to the Code of Conduct and the obligation to observe it are also firm aspects of employment contracts. The Code of Conduct is also an assessment factor for the variable, performance-related remuneration component in management. Since 2019, employees at higher management levels have received annual Code of Conduct certification.

*Read more online about the **Code of Conduct** at **www.audi.com/corporate-governance-practices**.*

/// COMPLIANCE PROGRAM AND PROCESSES

The compliance program within the Audi CMS comprises all measures and systems designed to coordinate and uphold compliance within the company. It is an important tool for creating a uniform starting point for all compliance activities throughout the Audi Group.
Within the Audi Group, we have defined compliance focal areas which need to be observed in order to protect our brands. These are permanently tracked and implemented through the annually updated compliance program. Audi already offers various information and training measures as well as ad hoc consultancy services for the compliance focal areas. The requirements on specific topics are defined in corporate policies that have been enacted on behalf of the Board of Management. These policies are binding for all employees and have been coordinated within the Volkswagen Group.

Compliance focal areas at Audi:

- Anti-corruption/anti-fraud
- Prevention of money laundering
- Business partner approval
- Insider information
- Human rights
- Awarding of external contracts
- Antitrust law
- Whistleblower system

As well as continuously addressing the compliance focus topics, the Compliance Program encompasses selected focal areas that reflect current developments in the Company and the industry. The activities in the period under review continued to be determined substantially by requirements resulting from the settlement agreements reached with the U.S. agencies as a result of the diesel issue.

To ensure that the Compliance Program is a lasting success, suitable communication and training measures were again held in 2019 for specific target groups.

The year under review also saw us embark on the worldwide roll-out of the new standardized and IT-based process of the Volkswagen Group for business partner selection. Existing and new business partners are checked regularly for adherence to integrity and compliance principles using a risk-based approach.

/// COMPLIANCE RISKS

Compliance risk analyses for identifying and evaluating compliance risks are conducted regularly for the defined compliance focus topics.

*Read more about our **risk management process** on **pages 89 ff.***

/// COMPLIANCE ORGANIZATION

To fulfill its obligations, the Board of Management of AUDI AG has set up the “Compliance/Integrity” organizational unit that is directly subordinate to the Chief Compliance Officer (CCO) as the head of the “Integrity, Compliance, Risk Management” organizational unit. The CCO reports on disciplinary matters to the Chairman of the Board of Management of AUDI AG on the current situation and on events of particular significance. Reports are given quarterly in a regular reporting format, among other things to keep the Audit Committee of the Supervisory Board in the loop. Independently of this, ad hoc reporting is fundamentally possible. In addition, the Chief Compliance Officer reports on functional matters to the Group Chief Compliance Officer appointed by Volkswagen AG, Wolfsburg, and also to the higher-level integrity function at Group level.

In special situations (e.g. serious compliance violations), ad hoc reports must be given to the higher-level compliance function.

Risk and compliance officers have also been defined for all Audi divisions. The participations where AUDI AG holds a majority interest or assumes entrepreneurial management (e.g. controlling influence) have installed their own compliance officers, and additionally receive advice and support on compliance activities. It was again ensured in 2019 that both the individual participations and AUDI AG were bound into the Volkswagen Group reporting structure.

//// COMPLIANCE COMMUNICATION AND TRAINING

At AUDI AG, currently two Company-wide mandatory training programs on the subjects of “Anti-corruption” and “Code of Conduct” need to be completed. In addition, the members of the Board of Management receive separate training on compliance topics at recurring face-to-face events.

The remaining compliance focus topics are covered in face-to-face or online training for specific target groups. These include training on interaction with public officials, on the whistleblower system, and on the awarding of external contracts. All training courses are fundamentally available to all interested employees.

/// COMPLIANCE MONITORING/IMPROVEMENT

Group-wide compliance monitoring and improvement is a significant component of the Compliance Management System (CMS) at Audi. The aim is to achieve a continuous improvement in all elements of the CMS. In pursuit of this, the appropriateness and effectiveness of the individual compliance measures are systematically evaluated.

//// IMPLEMENTATION OF THE RECOMMENDATIONS FROM THE MONITORSHIP

Since June 2017, the “Integrity, Compliance, Risk Management” organizational unit has also coordinated cooperation with the Independent Compliance Monitor/ Auditor Mr. Larry D. Thompson, appointed by the U.S. authorities. Mr. Thompson is assessing and overseeing Volkswagen’s and Audi’s fulfillment of the conditions from the agreements with the U.S. agencies on the diesel issue. A 90-day extension to the U.S. monitorship was requested by the Volkswagen Group and approved in the year under review. This agreement gives us more time on the one hand to comprehensively review the measures implemented as well as correct them as necessary, and on the other hand to complete measures that are outstanding. These include such aspects as further reinforcing compliance along with the reporting and control systems. The resources for integrity and compliance were therefore substantially increased in recent years, to anchor the numerous building blocks of effective integrity and compliance management deeply within the Company. Further requirements from the settlement agreements with the U.S. agencies were added in the period under review. Further details are provided later on in this section. The objective is that the Monitor’s certification report will confirm the effectiveness of our Company’s integrity and compliance programs.

The Monitor regular provides recommendations for action, which Volkswagen and Audi take very seriously and on which they work continuously to implement. For instance, there was increased monitoring of the CMS at foreign companies in the year under review of 2019 and a method of identifying certain risks was developed. There were also ongoing adjustments and additions to existing processes in the whistleblower system to satisfy the U.S. monitorship’s requirements on the regular, risk-based external auditing of the whistleblower system.

*Read more online about the **whistleblower system** at **www.audi.com/whistle-blower**.*

//// INTEGRITY INDEX AT AUDI 2019 IN PILOT PHASE

The Volkswagen Group in addition prompted the establishment of an integrity index in the year under review, in the form of a pilot project at Volkswagen Passenger Cars and Audi. The index was developed in partnership with the Technical University of Munich and is intended to comprehensively reflect the integrity of an organization. In the future, we will use this indicator to measure our progress with anchoring integrity more deeply in our Company. With the integrity index, we are defining an international benchmark for integrity measurement. The index is set up to be cross-industry and global, has high scientific validity and incorporates established frameworks such as those of the Ethics & Compliance Initiative (ECI) and the Global Reporting Initiative (GRI). It is intended to reveal weaknesses in integrity and compliance matters, and visualize changes in the mindset and behavior of managers and employees.

//// FURTHER IMPROVEMENTS TO THE AUDI CMS

The Audi Compliance Cockpit is the central digital compliance portal that brings together all digital applications of the Compliance area and is intended in particular to help the participations conduct their compliance work. The Audi Compliance Cockpit includes for instance conducting business partner checks, easy custom solutions for creating online training programs and digital reporting of compliance measures required and implemented in the companies. The Audi Compliance Cockpit was introduced in 2018 and supplemented with further modules in the year under review.

The revision of the Audi Corporate Regulations, started in 2017, has now been completed. The aim here was to restructure and simplify the collected internal corporate regulations and communicate them more effectively as well as to transfer valid Volkswagen Group Policies into Audi Corporate Policies. The ongoing adjustment and updating of the Audi Corporate Regulations is a fundamental task.

/ MEMBERS OF THE BOARD OF MANAGEMENT AND THEIR MANDATES

Status of all data: December 31, 2019

Abraham Schot (born 1961)
Chairman of the Board of Management, since January 1, 2019
Marketing and Sales [1], from September 1, 2017, to June 30, 2019
Member of the Board of Management of Volkswagen AG, "Premium" brand group, since January 1, 2019
Nationality: Dutch

Wendelin Göbel (born 1963) Human Resources and Organization, since September 1, 2017
Nationality: German
Mandates:

- Lebenshilfe Werkstätten der Region 10 GmbH, Ingolstadt
- Volkswagen Pension Trust e.V., Wolfsburg

Peter Kössler (born 1959)
Production and Logistics, since September 1, 2017
Nationality: German
Mandates:

- ERC Ingolstadt Eishockeyclub GmbH, Ingolstadt
- Volkswagen Group Services GmbH, Wolfsburg

Dr. Bernd Martens (born 1966)
Procurement and IT, since September 1, 2012
Nationality: German

Hans-Joachim Rothenpieler (born 1957)
Technical Development, since November 1, 2018
Nationality: German
Mandate:

- Volkswagen Financial Services AG, Braunschweig

Alexander Seitz (born 1962)
Finance, China and Legal Affairs, since September 1, 2017
Nationality: German

Hildegard Wortmann (born 1966)
Marketing and Sales, since July 1, 2019
Nationality: German

1) Interim from January 1 to June 30, 2019

In connection with their duties of Group steering and governance within the Audi Group, the members of the Board of Management hold further supervisory board seats at Group companies and material participations.

- Membership of comparable domestic and foreign regulatory bodies

/ MEMBERS OF THE SUPERVISORY BOARD AND THEIR MANDATES

Status of all data: December 31, 2019

Dr.-Ing. Herbert Diess (born 1958) [1)], since May 7, 2018
Chairman
Chairman of the Board of Management of Volkswagen AG, Wolfsburg
Chairman of the Brand Board of Management of Volkswagen Passenger Cars;
"Volume" brand group; China
Nationality: Austrian
Mandates:
- ■ FC Bayern München AG, Munich
- ■ Infineon Technologies AG, Neubiberg

Peter Mosch (born 1972) [1)], since July 1, 2001
Vice Chairman
Chairman of the General Works Council of AUDI AG, Ingolstadt
Nationality: German
Mandates:
- ■ Audi Pensionskasse – Altersversorgung der AUTO UNION GmbH, VVaG, Ingolstadt
- ■ Volkswagen AG, Wolfsburg
- ◆ Audi Stiftung für Umwelt GmbH, Ingolstadt

Mag. Josef Ahorner (born 1960), since November 30, 2015
Businessman, Vienna, Austria
Nationality: Austrian
Mandates:
- ■ Porsche Automobil Holding SE, Stuttgart
- ◆ Automobili Lamborghini S.p.A., Sant'Agata Bolognese, Italy
- ◆ EMARSYS eMarketing Systems AG, Vienna, Austria (Chairman)

Rita Beck (born 1970), since December 13, 2016
Vice Chairwoman of the Works Council of AUDI AG, Ingolstadt plant
Nationality: German

Marianne Heiß (born 1972), since May 7, 2018
Chief Executive Officer of BBDO Group Germany GmbH, Düsseldorf
Nationality: Austrian
Mandates:
- ■ Porsche Automobil Holding SE, Stuttgart
- ■ Volkswagen AG, Wolfsburg

Johann Horn (born 1958), since January 1, 2000
District Manager of IG Metall Bayern, Munich
Nationality: German
Mandates:
- ■ EDAG Engineering GmbH, Wiesbaden
- ■ EDAG Engineering Holding GmbH, Munich
- ■ Siemens Healthcare GmbH, Munich

Gunnar Kilian (born 1975) [1)], since May 9, 2018
Member of the Board of Management of Volkswagen AG, Wolfsburg
Nationality: German
Mandate:
- ■ Wolfsburg AG, Wolfsburg

Rolf Klotz (born 1958), since May 16, 2013
Chairman of the Works Council of AUDI AG, Neckarsulm plant
Nationality: German

Dr. Julia Kuhn-Piëch (born 1981), since November 30, 2015
Property Manager, Salzburg, Austria
Nationality: Austrian
Mandates:
- ■ MAN SE, Munich
- ■ MAN Truck & Bus AG, Munich
- ■ TRATON SE, Munich
- ◆ Audi Stiftung für Umwelt GmbH, Ingolstadt

1) In connection with their duties of Group steering and governance within the Volkswagen Group, this member of the Supervisory Board holds further supervisory board seats at Group companies and material participations.

■ Membership of statutorily constituted domestic supervisory boards
◆ Membership of comparable domestic and foreign regulatory bodies

Petra Otte (born 1973), since May 9, 2018
Trade Union Secretary/Press Spokeswoman of IG Metall Baden-Württemberg, Stuttgart
Nationality: German
Mandate:
- ■ Heidelberger Druckmaschinen AG, Wiesloch

Dr. jur. Hans Michel Piëch (born 1942), since November 19, 2009
Attorney, Vienna, Austria
Nationality: Austrian
Mandates:
- ■ Dr. Ing. h.c. F. Porsche AG, Stuttgart
- ■ Porsche Automobil Holding SE, Stuttgart (Vice Chairman)
- ■ Volkswagen AG, Wolfsburg
- ◆ Porsche Cars Great Britain Ltd., Reading, United Kingdom
- ◆ Porsche Cars North America Inc., Atlanta, USA
- ◆ Porsche Greater China, consisting of: Porsche (China) Motors Limited, Shanghai Porsche Hong Kong Limited, Hong Kong
- ◆ Porsche Holding Gesellschaft m.b.H., Salzburg, Austria
- ◆ Schmittenhöhebahn AG, Zell am See, Austria
- ◆ Volksoper Wien GmbH, Vienna, Austria

Dipl.-Wirtsch.-Ing. Hans Dieter Pötsch (born 1951), since April 25, 2003
Chairman of the Supervisory Board of Volkswagen AG, Wolfsburg
Chairman of the Board of Management and Chief Financial Officer of Porsche Automobil Holding SE, Stuttgart
Nationality: Austrian
Mandates:
- ■ Autostadt GmbH, Wolfsburg
- ■ Bertelsmann Management SE, Gütersloh
- ■ Bertelsmann SE & Co. KGaA, Gütersloh
- ■ Dr. Ing. h.c. F. Porsche AG, Stuttgart
- ■ TRATON SE, Munich (Chairman)
- ■ Volkswagen AG, Wolfsburg (Chairman)
- ■ Wolfsburg AG, Wolfsburg
- ◆ Porsche Austria Gesellschaft m.b.H., Salzburg, Austria (Chairman)
- ◆ Porsche Holding Gesellschaft m.b.H., Salzburg, Austria (Chairman)
- ◆ Porsche Retail GmbH, Salzburg, Austria (Chairman)
- ◆ VfL Wolfsburg-Fußball GmbH, Wolfsburg (Vice Chairman)

Dr. jur. Ferdinand Oliver Porsche (born 1961), since November 19, 2009
Member of the Board of Management of Familie Porsche AG Beteiligungsgesellschaft, Salzburg, Austria
Nationality: Austrian
Mandates:
- ■ Dr. Ing. h.c. F. Porsche AG, Stuttgart
- ■ Porsche Automobil Holding SE, Stuttgart
- ■ Volkswagen AG, Wolfsburg
- ◆ Porsche Holding Gesellschaft m.b.H., Salzburg, Austria
- ◆ Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg

Dr. rer. comm. Wolfgang Porsche (born 1943), since May 10, 2012
Chairman of the Supervisory Board of Porsche Automobil Holding SE, Stuttgart
Chairman of the Supervisory Board of Dr. Ing. h. c. F. Porsche AG, Stuttgart
Nationality: Austrian
Mandates:
- ■ Dr. Ing. h.c. F. Porsche AG, Stuttgart (Chairman)
- ■ Porsche Automobil Holding SE, Stuttgart (Chairman)
- ■ Volkswagen AG, Wolfsburg
- ◆ Familie Porsche AG Beteiligungsgesellschaft, Salzburg, Austria (Chairman)
- ◆ Porsche Cars Great Britain Ltd., Reading, United Kingdom
- ◆ Porsche Cars North America Inc., Atlanta, USA
- ◆ Porsche Greater China, consisting of: Porsche (China) Motors Limited, Shanghai Porsche Hong Kong Limited, Hong Kong
- ◆ Porsche Holding Gesellschaft m.b.H., Salzburg, Austria
- ◆ Schmittenhöhebahn AG, Zell am See, Austria

Rainer Schirmer (born 1966), since May 9, 2018
Vice Chairman of the Works Council of AUDI AG, Neckarsulm plant
Nationality: German
Mandate:
- ■ Audi BKK, Ingolstadt

■ Membership of statutorily constituted domestic supervisory boards
◆ Membership of comparable domestic and foreign regulatory bodies

Jörg Schlagbauer (born 1977), since February 7, 2006
Vice Chairman of the Works Council of AUDI AG, Ingolstadt plant
Nationality: German
Mandates:
- ■ Audi BKK, Ingolstadt (alternating Chairman)
- ■ BKK Landesverband Bayern, Munich (alternating Chairman)
- ■ Sparkasse Ingolstadt Eichstätt, Ingolstadt

Irene Schulz (born 1964), since July 11, 2016
Executive Member of the Managing Board of the IG Metall trade union, Frankfurt am Main
Nationality: German

Helmut Späth (born 1956), since May 25, 2010
Member of the Works Council of AUDI AG, Ingolstadt plant
Nationality: German
Mandates:
- ■ Audi BKK, Ingolstadt
- ◆ Volkswagen Pension Trust e.V., Wolfsburg

Stefanie Ulrich (born 1965), since September 14, 2017
Personnel Management Neckarsulm, Neckarsulm plant
Nationality: German
Mandates:
- ■ Agentur für Arbeit, Heilbronn
- ■ Audi BKK, Ingolstadt

Hiltrud Dorothea Werner (born 1966) [1], since February 16, 2017
Member of the Board of Management of Volkswagen AG, Wolfsburg
Nationality: German

1) In connection with their duties of Group steering and governance within the Volkswagen Group, this member of the Supervisory Board holds further supervisory board seats at Group companies and material participations.

■ Membership of statutorily constituted domestic supervisory boards
◆ Membership of comparable domestic and foreign regulatory bodies

/ REMUNERATION REPORT

// CONTENTS OF THE REMUNERATION REPORT FOR SUPERVISORY BOARD AND BOARD OF MANAGEMENT

The Remuneration Report explains the principles of Board of Management and Supervisory Board remuneration. The Remuneration Report also includes details of the remuneration paid to the members of the Board of Management and Supervisory Board of AUDI AG, broken down by individual member and by component, as well as information on the pension arrangements for members of the Board of Management, broken down by individual member, pursuant to Section 314, Para. 1, No. 6a) of the German Commercial Code (HGB) and the German Corporate Governance Code.

// PRINCIPLES AND NEW REGULATIONS OF BOARD OF MANAGEMENT REMUNERATION

The full Supervisory Board passes resolutions on the remuneration system and the total remuneration for individual members of the Board of Management of AUDI AG on the basis of the Presiding Committee's recommendations. The remuneration of the members of the Board of Management complies with the statutory requirements of the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code. In particular, the remuneration structure is focused on ensuring the sustainable growth of the enterprise in accordance with Section 87, Para. 1 of the German Stock Corporation Act (AktG).

At the end of 2018, the Supervisory Board of AUDI AG resolved to adjust the remuneration system of the Board of Management, with effect from January 1, 2019. The new system for remuneration of the Board of Management was approved at the 130th Annual General Meeting on May 23, 2019, with 99.90 percent of the votes cast. The adjustment, in which the Supervisory Board was assisted by renowned, independent external remuneration and legal consultants, resulted in an alignment with the Volkswagen Group strategy "TOGETHER – Strategy 2025." The new remuneration system applies to Ms. Wortmann from July 1, 2019, the date on which she joined the Board of Management of AUDI AG. The old remuneration system, which had been approved at the 121st Annual General Meeting on May 20, 2010, with 99.70 percent of the votes cast, continued to apply to the contracts valid in 2019 with Mr. Göbel, Mr. Kössler, Dr. Martens, Mr. Rothenpieler and Mr. Seitz.

The remuneration system specified by Volkswagen AG exclusively applies to Mr. Schot from January 1, 2019, following his appointment to the Board of Management of Volkswagen AG (Premium brand group). AUDI AG does not have any obligation to make any payments towards the remuneration stated for Mr. Schot. These payments are being made solely by Volkswagen AG.

The level of remuneration paid to the Board of Management should be appropriate and attractive by national and international comparison. The relevant criteria include the tasks of the individual Board member, the member's personal performance, the Company's economic situation, performance and future prospects, and also the standard nature of the remuneration, taking account of competitors on the market and the pay structure otherwise in place within the Audi Group and the Volkswagen Group. Regular comparisons of remuneration levels are carried out in this regard.

The next section describes the new and old remuneration systems.

// COMPONENTS OF BOARD OF MANAGEMENT REMUNERATION UNDER THE OLD SYSTEM

The remuneration paid to the Board of Management comprises fixed (non-performance-related) and variable (performance-related) components. The fixed components guarantee basic remuneration that allows the individual members of the Board of Management to execute their duties conscientiously and in the best interests of the Company, without becoming dependent upon achieving short-term targets only. Variable components, dependent among other things on the financial performance of the Company, serve to ensure the long-term impact of performance incentives.

Pursuant to the Supervisory Board resolution of November 24, 2016, there is a cap on both total remuneration and its variable components.

/// FIXED REMUNERATION

The fixed (non-performance-related) remuneration comprises fixed remuneration and fringe benefits. In addition to the individual basic remuneration, the fixed remuneration also includes remuneration for appointments at AUDI AG subsidiaries and participations in which AUDI AG holds a direct or indirect interest. The fringe benefits constitute remuneration in kind. These include in particular the provision of operating resources, such as company cars, as well as payment of insurance premiums. Taxes due on this remuneration in kind are paid by AUDI AG in accordance with Company guidelines.

The fixed remuneration is reviewed on a regular basis by the Supervisory Board and adjusted as necessary.

/// *VARIABLE REMUNERATION WITHOUT A PERFORMANCE SHARE PLAN*

In the case of the contracts with Mr. Göbel, Mr. Kössler, Dr. Martens, Mr. Rothenpieler and Mr. Seitz, the variable (performance-related) remuneration consists of a bonus, based on business performance in the year under review and the previous year (two-year period), and, since 2010, has also included a long-term incentive (LTI) based on performance in the year under review and over the previous three fiscal years (four-year period). These two components of variable remuneration are therefore calculated using a measurement basis spanning several years and take account of both positive and negative developments. In addition, a bonus may be awarded for the individual personal performance of members of the Board of Management (one-year variable remuneration).

If any extraordinary factors arise, the Supervisory Board may decide to impose a further cap on the variable remuneration components.

//// *BONUS SYSTEM*

The business performance bonus rewards the positive business development of the Audi Group. Generally, the amount of the bonus is based on the Audi Group’s average operating profit over the previous two years plus the proportionate operating profit of the Chinese associated companies. The system is regularly reviewed by the Supervisory Board with regard to adjustments.

//// *LONG-TERM INCENTIVE (LTI)*

The amount of the LTI (four-year period) for the members of the Board of Management of AUDI AG is determined according to the achievement of the strategic goals of the Volkswagen Group. The relevant target areas for the 2019 remuneration year are:

- Leader in customer satisfaction, measured using the customer satisfaction index,
- Leading employer, measured using the employee index,
- Rise in sales, measured using the growth index, and
- Rise in return, measured using the return index.

The customer satisfaction index is calculated based on indicators of our customers’ overall satisfaction with the dealers supplying the products, with new vehicles and with the service establishments, based on the most recent workshop visit in each case. The employee index is calculated on the basis of such indicators as “employment” and “productivity,” as well as the participation rate and results of employee surveys. The growth index is calculated from the indicators “deliveries to customers” and “market share.” The return index is determined from the development in the return on sales and the dividend per ordinary share.

The indices calculated for customer satisfaction, employees and the sales situation are aggregated and the total is then multiplied by the return index. This method ensures that the LTI is only paid out if the Group has been financially successful. If the return on sales does not exceed a threshold of 1.5 percent, the return index will equal zero. Consequently, the overall index for the fiscal year in question will then also be zero.

/// *OTHER AGREEMENTS*

In the event of the regular termination of their employment, the members of the Board of Management are also granted retirement pay as well as the use of company cars for the period in which they receive retirement pay. Under this commitment, they also hold entitlement to 60 percent of their retirement pay for a survivor’s pension for their spouse or registered partner and 15 percent orphan benefits for half-orphans and 30 percent orphan benefits for full orphans.

Contracts with members of the Board of Management include an entitlement to continued payment of the standard remuneration for a period of six to twelve months in the event of sickness, but not beyond the term of the employment contract. In the event of disability, members are entitled to retirement pay.

// *COMPONENTS OF BOARD OF MANAGEMENT REMUNERATION UNDER THE NEW SYSTEM*

The new remuneration system applies to Mr. Schot and Ms. Wortmann. The remuneration comprises fixed (non-performance-related) and variable (performance-related) components. The fixed components guarantee basic remuneration that allows the individual members of the Board of Management to execute their duties conscientiously and in the best interests of the Company, without becoming dependent upon achieving short-term targets only. Variable components, dependent among other things on the financial performance of the Company, serve to ensure the long-term impact of performance incentives.

Ms. Wortmann has received a contractual guarantee of minimum remuneration of EUR 1.0 million gross for the 2019 fiscal year, comprising fixed and variable remuneration.

/// *FIXED REMUNERATION*

The fixed remuneration under the new system is the same as that under the old system.

/// *VARIABLE REMUNERATION WITH A PERFORMANCE SHARE PLAN*

In the case of the contracts with Mr. Schot and Ms. Wortmann, the variable (performance-related) remuneration is composed of an annual bonus with a one-year assessment period and a long-term incentive in the form of a performance share plan with a forward-looking three-year term. The components of the variable remuneration reflect both positive and negative developments.

If any extraordinary factors arise, the Supervisory Board may decide to impose a cap on the variable remuneration components.

//// *ANNUAL BONUS*

The annual bonus is based on the result for the respective fiscal year. The initial amount of the annual bonus for a given fiscal year is determined by multiplying the individual contractual target with the total target achievement level. If a total target achievement level of 100 percent is reached, the initial amount equals the target amount.

In view of his duties as a member of the Board of Management of Volkswagen AG, one half of the annual bonus accruing to Mr. Schot is calculated on the basis of the operating profit of the Volkswagen Group plus the proportionate operating profit of the Chinese associated companies and the other half on the basis of the operating return on sales of the Volkswagen Group.

In addition, Mr. Schot is subject to a performance factor (multiplier). The calculated payment amount may be individually reduced (multiplier of 0.8) or increased (multiplier of 1.2) by up to 20 percent by the Supervisory Board, taking into account the degree of achievement of the individual targets agreed between the Supervisory Board and the respective member of the Board of Management, as well as the success of the Board of Management of the Volkswagen Group in transforming the Volkswagen Group by transferring employees to new areas of activity.

The payment amount under the annual bonus accruing to Mr. Schot is capped at 180 percent of the target amount in view of his duties as a member of the Board of Management of Volkswagen AG. The cap for Mr. Schot is derived from 150 percent of the maximum financial target achievement and a performance factor of a maximum of 1.2.

Component 1: Operating result of the Volkswagen Group including Chinese joint ventures (proportionate)

EUR billion	2019
Maximum threshold	25.0
100% level of target	17.0
Minimum threshold	9.0
Actual	21.4
Target achievement (in %)	127

Component 2: Operating return on sales of the Volkswagen Group

in %	2019
Maximum threshold	8.0
100% level of target	6.0
Minimum threshold	4.0
Actual	6.7
Target achievement (in %)	118

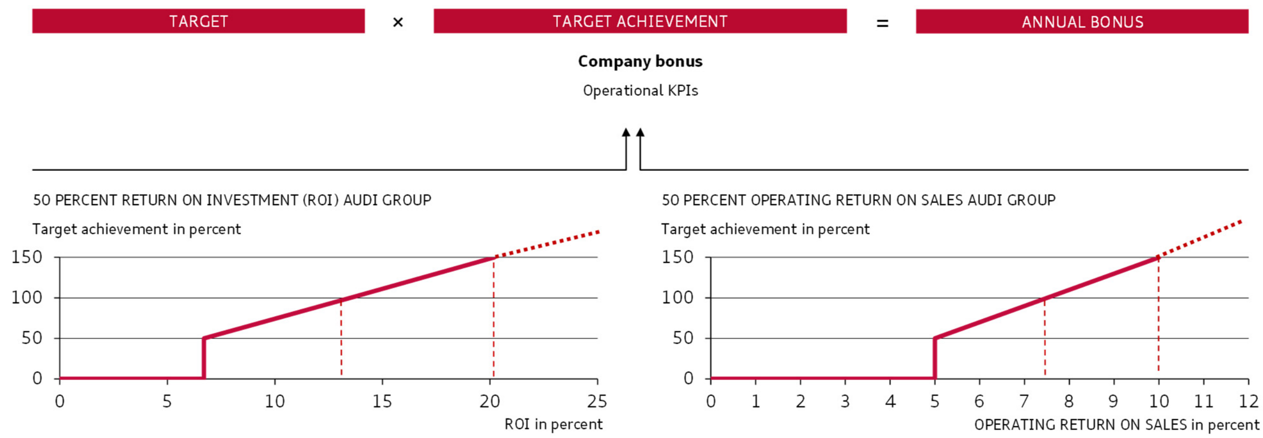
In the case of the members of the Board of Management of AUDI AG who are not members of the Board of Management of Volkswagen AG, the annual bonus is based on the Audi Consolidated Financial Statements in the first year of the new remuneration system in 2019. One half of the annual bonus is dependent on the return on investment (ROI) achieved by the Audi Group and the other half on the operating return on sales achieved by the Audi Group. Each of the two components of the annual bonus are only included in the calculation if certain thresholds are exceeded or reached.

There is no performance factor (multiplier) for members of the Board of Management of AUDI AG. There is no cap on the amount paid under the annual bonus.

Starting in the 2020 fiscal year, the return on investment (ROI) and the operating return on sales achieved by the Audi Group and Volkswagen AG will be included in equal parts in the calculation of the annual bonus.

In 2019, the new remuneration system applies only to Ms. Wortmann.

Calculation of the amount paid under the annual bonus



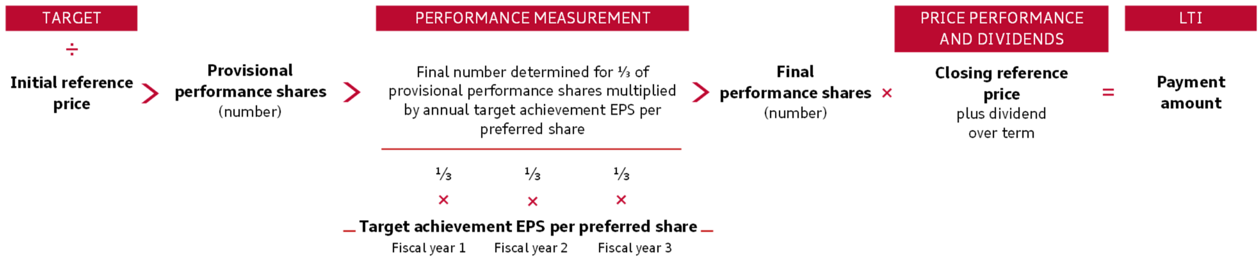
Return on investment (ROI) of the Audi Group

in %	2019
150% level of target	20.2
100% level of target	13.5
50% level of target	6.7
Actual	12.7
Target achievement (in %)	93

Operating return on sales of the Audi Group

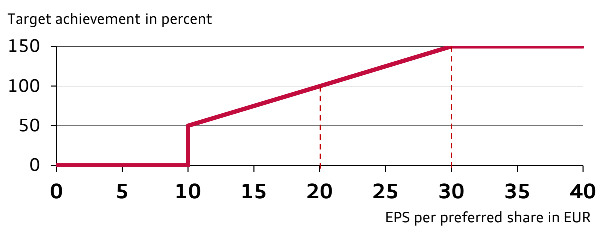
in %	2019
150% level of target	10.0
100% level of target	7.5
50% level of target	5.0
Actual	8.1
Target achievement (in %)	112

//// LONG-TERM INCENTIVE – PERFORMANCE SHARE PLAN



The long-term incentive is granted to the Board of Management annually in the form of a performance share plan. Each performance period of the performance share plan has a term of three years. At the time the long-term incentive is granted, the annual target amount under the long-term incentive is converted into performance shares of Volkswagen AG on the basis of the initial reference price of Volkswagen's preferred shares and then allocated to the respective member of the Board of Management as a pure calculation position. It is converted on the basis of the unweighted average of the closing prices of Volkswagen's preferred shares for the last 30 trading days preceding January 1 of a given fiscal year. At the end of each year, the number of performance shares is definitively determined for one-third of the three-year performance period based on the extent of target achievement for the annual earnings per Volkswagen preferred share (EPS – earnings per share per preferred share in EUR). A prerequisite for this is that a threshold is reached.

EPS performance measurement



Performance period 2019–2021

EPS per preferred share in EUR	2019
Maximum threshold	30.00
100% level of target	20.00
Minimum threshold	10.00
Actual [1]	26.66
Target achievement (in %)	133

1) Provisional figure, subject to a resolution by the Supervisory Board of Volkswagen AG

After the end of the three-year term of the performance share plan, a cash settlement is then made. The payment amount corresponds to the final number of issued performance shares multiplied by the closing reference price at the end of the three-year period plus a dividend equivalent for the relevant term. The closing reference price is the unweighted average of the closing prices for Volkswagen's preferred shares for the 30 trading days preceding the last day of the three-year performance period.

EUR	2019
Initial reference price	147.08
Closing reference price	– [2]
Dividend equivalent	4.86

2) Determined at the end of the performance period

The payout amount under the performance share plan is limited to 200 percent of the contractual target amount. A discount of 20 percent is applied to the payment amount if the average ratio of capex or the development ratio in the Group Automotive segment over the last three years is less than 5 percent.

If a member of the Board of Management leaves the company before the payment of the cash settlement for any defined "bad leaver" reasons, the performance shares that have not been paid out will expire free of any replacement or compensation.

Information on the performance shares

	Performance period 2019–2021	
	Number of granted performance shares	Fair value at the grant date in EUR
Abraham Schot (since Jan. 1, 2019) 1)	8,359	1,075,328
Hildegard Wortmann (since July 1, 2019)	2,550	328,057
Total	**10,909**	**1,403,385**

1) The amount of remuneration paid to Mr. Schot is based on the remuneration calculated under the Volkswagen Group system for members of the Board of Management of Volkswagen AG. AUDI AG does not have any obligation to make any payments to Mr. Schot towards the remuneration stated above. These payments are made solely by Volkswagen AG.

in EUR	Total carrying amount of the obligation as of Dec. 31, 2019	Intrinsic value of the liabilities as of Dec. 31, 2019	Total expense for the period
Abraham Schot (since Jan. 1, 2019) 1)	1,494,404	0	1,494,404
Hildegard Wortmann (since July 1, 2019)	198,530	0	198,530
Total	**1,692,934**	**0**	**1,692,934**

1) The amount of remuneration paid to Mr. Schot is based on the remuneration calculated under the Volkswagen Group system for members of the Board of Management of Volkswagen AG. AUDI AG does not have any obligation to make any payments to Mr. Schot towards the remuneration stated above. These payments are made solely by Volkswagen AG.

The number of performance shares includes the provisional performance shares allocated at the grant date of the performance share plan. The fair value at the grant date was determined using a recognized valuation technique.

The provision recognized as of December 31, 2019, reflects the obligation to the members of the Board of Management. To determine its amount, the performance shares expected for future performance periods were taken into account in addition to the provisional performance shares determined or allocated for the performance period 2019 to 2021. The amount therefore depends on the individual contract term and the relevant vesting arrangements for the performance shares.

The intrinsic value was calculated in accordance with IFRS 2 and corresponds to the amount that the members of the Board of Management would have received if they had stepped down on December 31, 2019. Only the non-forfeitable (vested) performance shares at the reporting date are included in the calculation. The intrinsic value was calculated on the basis of the unweighted average share price for the 30 trading days (Xetra closing prices of Volkswagen's preferred shares) preceding December 31, 2019, taking into account the dividends paid per preferred share during the performance period. The performance shares do not vest until after the expiry of the performance period. This means that if a member of the Board of Management terminates his or her service contract of his or her own accord, all performance shares that have not yet vested are forfeited. For this reason, the intrinsic value of the performance shares equals zero during the performance period. The net value of all amounts recognized in profit or loss for the performance shares in the 2019 fiscal year is recorded in "Total expense for the period" in accordance with IFRS.

/// OTHER AGREEMENTS

The other agreements under the new remuneration system are the same as those under the old remuneration system.

// BOARD OF MANAGEMENT REMUNERATION FOR 2019 PURSUANT TO GERMAN COMMERCIAL CODE (HGB)

The figures shown in the following table reflect the figures reported in the 2019 financial statements as expense.

EUR	2019				2018
	Non-performance-related remuneration	Performance-related remuneration 1) 2)	Long-term incentive component 3)	Total remuneration	Total remuneration
Abraham Schot 4)	922,000	1,340,000	1,494,404	3,756,404	3,056,315
Wendelin Göbel	651,980	2,284,300	–	2,936,280	2,455,804
Peter Kössler	706,103	2,284,300	–	2,990,403	2,515,417
Dr. Bernd Martens	810,675	2,284,300	–	3,094,975	2,620,547
Hans-Joachim Rothenpieler	614,141	2,284,300	–	2,898,441	351,495
Alexander Seitz	615,119	2,284,300	–	2,899,419	2,450,968
Hildegard Wortmann (since July 1, 2019) 5)	566,097	287,350	198,530	1,051,977	–
Members of the Board of Management who left in the previous year	–	–	–	–	3,327,716
Total	**4,886,115**	**13,048,850**	**1,692,934**	**19,627,899**	**13,450,546**
of which borne by AUDI AG 3)	**3,964,115**	**11,708,850**	**198,530**	**15,871,495**	**13,450,546**

1) Corresponds to the amounts set aside in the fiscal year; the Supervisory Board determines the amount of the payment.
2) In addition, provision shortfalls resulted in expense (remuneration) of EUR –1,607,750 (Abraham Schot, Peter Kössler, Wendelin Göbel, Dr. Bernd Martens, Alexander Seitz: EUR –312,700 each; Hans-Joachim Rothenpieler: EUR –44,250).
3) The value of the performance shares is reported within the long-term incentive component. The provision recognized by AUDI AG as of December 31, 2019, relates solely to the performance shares accruing to Ms. Wortmann.
4) The amount of remuneration paid to Mr. Schot is based on the remuneration calculated under the Volkswagen Group system for members of the Board of Management of Volkswagen AG. AUDI AG does not have any obligation to make any payments to Mr. Schot towards the remuneration stated above. These payments are made solely by Volkswagen AG.
5) Ms. Wortmann has received a contractual guarantee of minimum remuneration of EUR 1,000,000 gross for the 2019 fiscal year, comprising fixed and variable remuneration, excluding fringe benefits. The non-performance-related remuneration includes a prorated top-up amount of EUR 250,120 on the minimum remuneration.

// BOARD OF MANAGEMENT REMUNERATION (BENEFITS RECEIVED) PURSUANT TO GERMAN CORPORATE GOVERNANCE CODE

The figures for the variable remuneration shown here as benefits received reflect the amounts paid out in the respective fiscal year.

EUR	Abraham Schot [1] Chairman of the Board of Management [2]	
	2019	2018
Fixed remuneration	922,000	1,146,667
Fringe benefits	–	59,948
Total	**922,000**	**1,206,615**
One-year variable remuneration	901,000	265,000
Multi-year variable remuneration	1,261,400	388,700
Business performance bonus (two-year period)	636,000	180,200
LTI (four-year period)	625,400	208,500
Total	**3,084,400**	**1,860,315**
Pension expense [3]	0	599,629
Total remuneration	**3,084,400**	**2,459,944**

1) The variable remuneration entails the full remuneration for his duties as member of the Board of Management for Marketing and Sales for the 2018 fiscal year.
2) Chairman of the Board of Management since January 1, 2019, and Member of the Board of Management for Marketing and Sales from January 1, 2019, through June 30, 2019, as a dual function
3) AUDI AG's pension plan for Mr. Schot was deemed to have vested on December 31, 2018, following his appointment to the Board of Management of Volkswagen AG.

EUR	Wendelin Göbel Human Resources and Organization	
	2019	2018
Fixed remuneration	560,000	546,667
Fringe benefits	91,980	59,437
Total	**651,980**	**606,104**
One-year variable remuneration	901,000	265,000
Multi-year variable remuneration	1,261,400	388,700
Business performance bonus (two-year period)	636,000	180,200
LTI (four-year period)	625,400	208,500
Total	**2,814,380**	**1,259,804**
Pension expense	243,473	248,346
Total remuneration	**3,057,853**	**1,508,150**

EUR	Peter Kössler	
	Production and Logistics	
	2019	2018
Fixed remuneration	560,000	546,667
Fringe benefits	146,103	119,050
Total	**706,103**	**665,717**
One-year variable remuneration	901,000	265,000
Multi-year variable remuneration	1,261,400	388,700
Business performance bonus (two-year period)	636,000	180,200
LTI (four-year period)	625,400	208,500
Total	**2,868,503**	**1,319,417**
Pension expense	220,187	221,521
Total remuneration	**3,088,690**	**1,540,938**

EUR	Dr. Bernd Martens	
	Procurement and IT	
	2019	2018
Fixed remuneration	560,000	560,000
Fringe benefits	250,675	210,847
Total	**810,675**	**770,847**
One-year variable remuneration	901,000	980,500
Multi-year variable remuneration	1,261,400	1,166,000
Business performance bonus (two-year period)	636,000	540,600
LTI (four-year period)	625,400	625,400
Total	**2,973,075**	**2,917,347**
Pension expense	326,237	334,546
Total remuneration	**3,299,312**	**3,251,893**

EUR	Hans-Joachim Rothenpieler	
	Technical Development	
	2019	2018
Fixed remuneration	523,334	80,000
Fringe benefits	90,807	9,745
Total	**614,141**	**89,745**
One-year variable remuneration	127,500	–
Multi-year variable remuneration	178,500	–
Business performance bonus (two-year period)	90,000	–
LTI (four-year period)	88,500	–
Total	**920,141**	**89,745**
Pension expense	220,260	69,025
Total remuneration	**1,140,401**	**158,770**

EUR	Alexander Seitz	
	Finance, China and Legal Affairs	
	2019	2018
Fixed remuneration	560,000	546,667
Fringe benefits	55,119	54,601
Total	**615,119**	**601,268**
One-year variable remuneration	901,000	265,000
Multi-year variable remuneration	1,261,400	388,700
Business performance bonus (two-year period)	636,000	180,200
LTI (four-year period)	625,400	208,500
Total	**2,777,519**	**1,254,968**
Pension expense	412,376	415,113
Total remuneration	**3,189,895**	**1,670,081**

EUR	Hildegard Wortmann	
	Marketing and Sales	
	Joined: July 1, 2019	
	2019	2018
Fixed remuneration	264,000	–
Fringe benefits	51,977	–
Total	**315,977**	**–**
One-year variable remuneration	–	–
Multi-year variable remuneration	–	–
Long-term incentive (performance share plan 2019–2021)	–	–
Total	**315,977**	**–**
Pension expense	387,470	–
Total remuneration	**703,447**	**–**

// BOARD OF MANAGEMENT REMUNERATION (BENEFITS GRANTED) PURSUANT TO GERMAN CORPORATE GOVERNANCE CODE

The figures for the variable remuneration excluding the performance share plan shown here as benefits granted are based on a mean probability scenario. The variable remuneration including the performance share plan is based on 100 percent target achievement in the case of the annual bonus and the fair value as of the grant date in the case of the performance share plan.

EUR	Abraham Schot [1]			
	Chairman of the Board of Management [2]			
	2019	2019 (minimum)	2019 (maximum)	2018
Fixed remuneration	922,000	922,000	922,000	1,160,000
Fringe benefits	–	–	–	59,948
Total	**922,000**	**922,000**	**922,000**	**1,219,948**
One-year variable remuneration	–	–	–	265,000
One-year variable remuneration (annual bonus)	1,340,000	–	2,412,000	–
Multi-year variable remuneration	1,075,328	–	2,150,656	388,700
Business performance bonus (two-year period)	–	–	–	180,200
LTI (four-year period)	–	–	–	208,500
Long-term incentive (performance share plan 2019–2021)	1,075,328	–	2,150,656	–
Total	**3,337,328**	**922,000**	**5,484,656**	**1,873,648**
Pension expense [3]	0	0	0	599,629
Total remuneration	**3,337,328**	**922,000**	**5,484,656**	**2,473,277**

1) The amount of remuneration paid to Mr. Schot is based on the remuneration calculated under the Volkswagen Group system for members of the Board of Management of Volkswagen AG. AUDI AG does not have any obligation to make any payments to Mr. Schot towards the remuneration stated above. These payments are made solely by Volkswagen AG.
2) Chairman of the Board of Management since January 1, 2019, and Member of the Board of Management for Marketing and Sales from January 1, 2019, through June 30, 2019, as a dual function
3) AUDI AG's pension plan for Mr. Schot was deemed to have vested on December 31, 2018, following his appointment to the Board of Management of Volkswagen AG.

EUR	Wendelin Göbel			
	Human Resources and Organization			
	2019	2019 (minimum)	2019 (maximum)	2018
Fixed remuneration	560,000	560,000	560,000	560,000
Fringe benefits	91,980	91,980	91,980	59,437
Total	**651,980**	**651,980**	**651,980**	**619,437**
One-year variable remuneration	795,000	–	1,060,000	265,000
Multi-year variable remuneration	1,489,300	–	2,120,000	388,700
Business performance bonus (two-year period)	598,900	–	1,060,000	180,200
LTI (four-year period)	890,400	–	1,060,000	208,500
Total	**2,936,280**	**651,980**	**3,831,980**	**1,273,137**
Pension expense	243,473	243,473	243,473	248,346
Total remuneration	**3,179,753**	**895,453**	**4,075,453**	**1,521,483**

EUR	Peter Kössler			
	Production and Logistics			
	2019	2019 (minimum)	2019 (maximum)	2018
Fixed remuneration	560,000	560,000	560,000	560,000
Fringe benefits	146,103	146,103	146,103	119,050
Total	**706,103**	**706,103**	**706,103**	**679,050**
One-year variable remuneration	795,000	–	1,060,000	265,000
Multi-year variable remuneration	1,489,300	–	2,120,000	388,700
Business performance bonus (two-year period)	598,900	–	1,060,000	180,200
LTI (four-year period)	890,400	–	1,060,000	208,500
Total	**2,990,403**	**706,103**	**3,886,103**	**1,332,750**
Pension expense	220,187	220,187	220,187	221,521
Total remuneration	**3,210,590**	**926,290**	**4,106,290**	**1,554,271**

EUR	Dr. Bernd Martens			
	Procurement and IT			
	2019	2019 (minimum)	2019 (maximum)	2018
Fixed remuneration	560,000	560,000	560,000	560,000
Fringe benefits	250,675	250,675	250,675	210,847
Total	**810,675**	**810,675**	**810,675**	**770,847**
One-year variable remuneration	795,000	–	1,060,000	980,500
Multi-year variable remuneration	1,489,300	–	2,120,000	1,166,000
Business performance bonus (two-year period)	598,900	–	1,060,000	540,600
LTI (four-year period)	890,400	–	1,060,000	625,400
Total	**3,094,975**	**810,675**	**3,990,675**	**2,917,347**
Pension expense	326,237	326,237	326,237	334,546
Total remuneration	**3,421,212**	**1,136,912**	**4,316,912**	**3,251,893**

EUR	Hans-Joachim Rothenpieler			
	Technical Development			
	2019	2019 (minimum)	2019 (maximum)	2018
Fixed remuneration	540,000	540,000	540,000	83,335
Fringe benefits	90,807	90,807	90,807	9,745
Total	**630,807**	**630,807**	**630,807**	**93,080**
One-year variable remuneration	795,000	–	1,060,000	–
Multi-year variable remuneration	1,489,300	–	2,120,000	–
Business performance bonus (two-year period)	598,900	–	1,060,000	–
LTI (four-year period)	890,400	–	1,060,000	–
Total	**2,915,107**	**630,807**	**3,810,807**	**93,080**
Pension expense	220,260	220,260	220,260	69,025
Total remuneration	**3,135,367**	**851,067**	**4,031,067**	**162,105**

EUR	Alexander Seitz			
	Finance, China and Legal Affairs			
	2019	2019 (minimum)	2019 (maximum)	2018
Fixed remuneration	560,000	560,000	560,000	560,000
Fringe benefits	55,119	55,119	55,119	54,601
Total	**615,119**	**615,119**	**615,119**	**614,601**
One-year variable remuneration	795,000	–	1,060,000	265,000
Multi-year variable remuneration	1,489,300	–	2,120,000	388,700
Business performance bonus (two-year period)	598,900	–	1,060,000	180,200
LTI (four-year period)	890,400	–	1,060,000	208,500
Total	**2,899,419**	**615,119**	**3,795,119**	**1,268,301**
Pension expense	412,376	412,376	412,376	415,113
Total remuneration	**3,311,795**	**1,027,495**	**4,207,495**	**1,683,414**

EUR	Hildegard Wortmann			
	Marketing and Sales			
	Joined: July 1, 2019			
	2019	2019 (minimum)	2019 (maximum)	2018
Fixed remuneration	274,000	274,000	274,000	–
Top-up amount to reach minimum remuneration	120,593	736,000	–	
Fringe benefits	51,977	51,977	51,977	–
Total	**446,570**	**1,061,977**	**325,977**	**–**
One-year variable remuneration (annual bonus)	287,350	–	– [2]	–
Multi-year variable remuneration	328,057	–	744,000	
Long-term incentive (performance share plan 2019–2021)	328,057	–	744,000	–
Total [1]	**1,061,977**	**1,061,977**	**–**	**–**
Pension expense	387,470	387,470	387,470	–
Total remuneration	**1,449,447**	**1,449,447**	**–**	**–**

1) Ms. Wortmann has received a contractual guarantee of minimum remuneration of EUR 1,000,000 gross for the 2019 fiscal year, comprising fixed and variable remuneration, excluding fringe benefits of EUR 51,977 and the proportionate Supervisory Board remuneration of EUR 10,000.
2) There is no cap on the amount paid under the annual bonus.

// BENEFITS PAID UPON REGULAR TERMINATION OF EMPLOYMENT

In the event of regular termination of their employment, the members of the Board of Management are also granted retirement pay with a survivor's pension as well as the use of company cars for the period in which they receive retirement pay. The agreed benefits are paid or made available when the Board of Management member reaches the age of 63 or 65, as applicable.

The retirement pay is calculated as a percentage of the monthly basic remuneration provided for in the individual service contract. Unless the service contract already provides for a rate of 50 percent, the individual percentage rises from an individual basic percentage by a defined rate for every year of service to the company up to a maximum of 50 percent of the monthly basic remuneration defined as a basis for calculating the retirement pay.

The pension obligations in accordance with IAS 19 for members of the active Board of Management amounted to EUR 50,527 (40,417) thousand on December 31, 2019, an amount of 10,111 (8,612) thousand including actuarial effects in accordance with IAS 19 and transfers was allocated to the provision in the year under review.

The measurement of pension obligations also includes other benefits such as surviving dependents' pensions and the provision of company cars. The pension obligations measured in accordance with the requirements of German commercial law came to EUR 35,962 (31,228) thousand, the amount of EUR 4,734 (9,944) thousand, including transfers, was allocated to the provision in the year under review in accordance with the requirements of German commercial law. Current pension payments are increased in line with the index-linking of the highest collectively agreed salary, unless the application of Section 16 of the German Act on the Improvement of Company Pension Provision (BetrAVG) leads to a higher increase.

Former members of the Board of Management and their surviving dependents received EUR 22,453 (21,440) thousand in the past year. For this group of individuals there were pension obligations amounting to EUR 113,390 (100,629) thousand measured in accordance with IAS 19 or EUR 87,745 (83,462) thousand measured in accordance with the requirements of German commercial law.

/// BOARD OF MANAGEMENT PENSIONS IN 2019 (IFRS)

EUR	2019		2018	
	Pension expense	Present values as of December 31	Pension expense	Present values as of December 31
Abraham Schot [1]	0	4,368,888	599,629	4,347,545
Wendelin Göbel	243,473	9,898,148	248,346	8,037,574
Peter Kössler	220,187	8,982,475	221,521	7,532,556
Dr. Bernd Martens	326,237	9,284,973	334,546	7,324,169
Hans-Joachim Rothenpieler	220,260	9,738,869	69,025	7,386,338
Alexander Seitz	412,376	7,394,656	415,113	5,788,540
Hildegard Wortmann (since July 1, 2019) [2]	387,470	859,300	–	–
Members of the Board of Management who left in the previous year	–	–	861,169	–
Total	**1,810,003**	**50,527,309**	**2,749,349**	**40,416,722**

1) AUDI AG's pension plan for Mr. Schot was deemed to have vested on December 31, 2018, in an amount equaling the entitlement accruing to him as of that date upon his appointment to the Board of Management of Volkswagen AG and is not subject to any future increases. For the period from January 1, 2019, Mr. Schot has been granted a defined-contribution pension plan for which Volkswagen AG recognized a pension expense of EUR 2,222,572 in 2019 in accordance with the IFRS and a present value of the same amount as of December 31, 2019.
2) Pension expense in 2019 is reported on a pro rata basis.

/// BOARD OF MANAGEMENT PENSIONS IN 2019 (GERMAN COMMERCIAL CODE [HGB])

EUR	2019		2018	
	Service costs	Present values as of December 31	Service costs	Present values as of December 31
Abraham Schot [1]	– 659,403	3,079,567	322,855	3,331,889
Wendelin Göbel	– 131,231	6,845,532	58,849	6,081,993
Peter Kössler	– 105,301	6,619,121	22,917	5,969,060
Dr. Bernd Martens	– 57,030	6,219,264	109,457	5,413,389
Hans-Joachim Rothenpieler	665,636	7,420,356	– 19,513	6,002,912
Alexander Seitz	114,273	5,195,856	245,628	4,428,616
Hildegard Wortmann (since July 1, 2019) [2]	291,201	582,402	–	–
Members of the Board of Management who left in the previous year	–	–	– 51,606	–
Total	**118,145**	**35,962,098**	**688,587**	**31,227,859**

1) AUDI AG's pension plan for Mr. Schot was deemed to have vested on December 31, 2018, in an amount equaling the entitlement accruing to him as of that date upon his appointment to the Board of Management of Volkswagen AG and is not subject to any future increases. For the period from January 1, 2019, Mr. Schot has been granted a defined-contribution pension plan for which Volkswagen AG recognized a service costs of EUR 1,601,918 for 2019, under German commercial law and a present value of the same amount as of December 31, 2019.
2) Service costs in 2019 are reported on a pro rata basis.

// BENEFITS PAID UPON EARLY TERMINATION OF EMPLOYMENT

If the activity is ended with good cause for which the member of the Board of Management is not responsible, entitlement is limited to a maximum of two years' annual remuneration (settlement cap).

In the event that the employment is ended with good cause for which the member of the Board of Management is responsible, no termination payment is made to the Board of Management member.

In the event of premature termination of their employment, the members of the Board of Management are also granted retirement pay with a survivor's pension as well as the use of company cars for the period in which they receive retirement pay.

// REMUNERATION OF THE SUPERVISORY BOARD

The remuneration paid to the Supervisory Board is composed of fixed and variable components in accordance with Section 16 of the Articles of Incorporation and Bylaws of AUDI AG. Pursuant to Section 314, Para. 1, No. 6a) of the German Commercial Code (HGB), the remuneration amounts to EUR 2,219 (1,594) thousand. The remuneration comprises EUR 252 (290) thousand in fixed and EUR 1,967 (1,304) thousand in variable components. The amount of the variable remuneration components is based on the compensatory payment made for the 2019 fiscal year in accordance with the applicable provision in the Articles of Incorporation and Bylaws.

The actual payment of individual parts of the total remuneration, which will only be determined upon finalization of the compensatory payment, will be made in the 2020 fiscal year pursuant to Section 16 of the Articles of Incorporation and Bylaws.

EUR	Fixed	Variable	Total 2019	
Dr.-Ing. Herbert Diess	–	–	–	Chairman [1] Shareholder representative
Peter Mosch [2]	20,500	168,800	189,300	Vice Chairman [1] Employee representative
Mag. Josef Ahorner	16,000	126,600	142,600	Shareholder representative [3]
Rita Beck [2]	11,500	84,400	95,900	Employee representative
Marianne Heiß	11,500	84,400	95,900	Shareholder representative
Johann Horn [2]	16,000	126,600	142,600	Employee representative [3]
Gunnar Kilian	–	–	–	Shareholder representative
Rolf Klotz [2]	16,000	126,600	142,600	Employee representative [4]
Dr. Julia Kuhn-Piëch	11,000	84,400	95,400	Shareholder representative
Petra Otte [2] (Member of the Audit Committee since May 22, 2019)	14,238	110,072	124,310	Employee representative
Dr. jur. Hans Michel Piëch	16,000	126,600	142,600	Shareholder representative [1]
Dipl.-Wirtsch.-Ing. Hans Dieter Pötsch	20,500	168,800	189,300	Shareholder representative [5]
Dr. jur. Ferdinand Oliver Porsche	16,000	126,600	142,600	Shareholder representative [4]
Dr. rer. comm. Wolfgang Porsche	11,500	84,400	95,900	Shareholder representative
Rainer Schirmer [2]	16,000	126,600	142,600	Employee representative [3]
Jörg Schlagbauer [2]	16,000	126,600	142,600	Employee representative [4]
Irene Schulz [2] (Member of the Audit Committee until May 22, 2019)	16,000	126,600	142,600	Employee representative [1]
Helmut Späth [2]	11,500	84,400	95,900	Employee representative
Stefanie Ulrich	11,500	84,400	95,900	Employee representative
Hiltrud Dorothea Werner	–	–	–	Shareholder representative [4] [6]
Prof. Dr. rer. pol. Carl H. Hahn	–	–	–	Honorary Chairman
Total	**251,738**	**1,966,872**	**2,218,610**	

1) Member of the Presiding Committee and the Negotiating Committee
2) The employee representatives have stated that their remuneration as Supervisory Board members shall be paid to the Hans Böckler Foundation, in accordance with the guidelines of the German Confederation of Trade Unions.
3) Member of the Diesel Committee
4) Member of the Audit Committee
5) Chairman of the Audit Committee
6) Chairwoman of the Diesel Committee

REPORT ON EXPECTED DEVELOPMENTS, RISKS AND OPPORTUNITIES

In the 2020 fiscal year, we want to build consistently on the ongoing repositioning of our Company as well as on its operational, strategic and cultural transformation. Challenges exist especially in connection with the current market environment, the scaling of electric mobility, the continuing need for huge upfront expenditure for future technologies and the tighter CO_2 regulations. For the 2020 fiscal year, we forecast an operating return on sales of between 7.5 and 9.5 percent.

REPORT ON EXPECTED DEVELOPMENTS

/ *ANTICIPATED DEVELOPMENT OF THE ECONOMIC ENVIRONMENT*

Our statements on the global economic situation and the international car market are based in particular on current assessments by external institutions. These include economic research institutes, banks, multinational organizations and consultancy firms.

// *GLOBAL ECONOMIC SITUATION*

For 2020, the Audi Group anticipates an unchanged pace of economic growth in the world economy compared with the previous year. We anticipate growth rates broadly on a par with the year 2019 both in the advanced economies and in emerging markets. Moreover, geopolitical tensions and conflicts, structural weaknesses in individual countries, the occurrence of infectious diseases (coronavirus, for example), financial market turbulence and increasing trade disputes continue to represent potential disruptive factors with regard to global economic growth.

Western Europe's economic growth is likely to weaken further in 2020. The region's economic development continues to suffer from structural problems that remain to be overcome, especially in southern Europe. In addition, uncertainties surrounding the United Kingdom's exit from the European Union could add to the slowdown in economic growth. In all probability, Germany's economic expansion will equally weaken slightly again, though the labor market will remain stable.

For Central and Eastern Europe we expect GDP growth to be at the prior-year level. The Russian economy should in all probability exhibit higher growth than in the year 2019.

For 2020, we expect economic growth in the United States to weaken somewhat. The delayed effect of the relaxed monetary policy adopted in the year 2019 should support it.

The Brazilian economy is expected to stabilize in 2020 and grow at a slightly faster rate. The large number of reforms announced should have a positive impact.

We once again expect to see the highest rates of economic growth worldwide in the Asia-Pacific region. China's economy is likely to achieve high growth by international comparison, albeit with further reduced momentum. China's temporary agreement with the United States on trade matters along with additional fiscal and monetary policy measures by its government should have a stabilizing effect, whereas a further spread of the coronavirus could curb economic development. The Japanese economy should develop at a lower rate of growth than in the previous year.

// *INTERNATIONAL CAR MARKET*

The Audi Group expects individual regions to develop at different rates in 2020. Overall, worldwide demand for new vehicles is likely to remain at the 2019 level.

We anticipate that new registrations in Western Europe will be below the 2019 figure. On the German passenger car market, demand for cars is likewise expected to slacken. In the Central and Eastern Europe region, we anticipate new registrations slightly below the 2019 level.

Sales of passenger cars and light commercial vehicles in the North America region will probably be below the previous year's level. The car market in the United States is also likely to contract.
By contrast, we expect increasing new registrations for the market for passenger cars and light commercial vehicles in South America.

For 2020 we are expecting new registrations in the Asia-Pacific region to remain at the 2019 level. We expect demand in China to be slightly above the level of the previous year. In Japan, we are anticipating a fall in demand for cars.

// INTERNATIONAL MOTORCYCLE MARKET

For 2020 we expect to see stable demand worldwide for motorcycles in the displacement segment above 500 cc. The Western European motorcycle market in particular is expected to develop positively, while demand in the United States is likely to decline.

/ OVERALL ASSESSMENT OF THE ANTICIPATED DEVELOPMENT OF THE AUDI GROUP

The forecasts for the 2020 fiscal year are based on our expectations with regard to how the global economy and the international car market will develop. For 2020, we expect a pace of economic growth in the world economy that should be broadly at the same level as the previous year. For car markets worldwide, we expect demand for new vehicles to be on a par with 2019 – but with a heterogeneous performance across the individual regions. In terms of global economic growth, the main potential disruptive factors for 2020 will again be geopolitical tensions and conflicts, structural weaknesses in individual countries, financial market turbulence and increasing trade disputes. These make it also more difficult to forecast future developments at Audi.

Along with macroeconomic uncertainties, the transformation of the entire automotive industry in particular is also likely to define our 2020 fiscal year. Customer expectations and value added streams are changing substantially. Our customers and further stakeholders are increasingly expecting urban mobility with comprehensive digital connectivity and a high degree of automation in products and processes. The aspect of sustainability along the entire value chain in the Company's culture is playing an increasingly important role. Automotive manufacturers need to make huge capital investments and upfront spending – especially on new technologies and business areas – to be viable in the future. In addition, new competitors, in some cases from outside the industry, are also entering business relating to mobility concepts with the effect of significantly increasing competition. As well as changed customer expectations and new competitors, the challenges for 2020 include meeting the increasing level of regulations and legislation worldwide by advancing the development of alternative drive concepts, especially for fully electric and electrified models. The spotlight in the 2020 fiscal year will be placed especially on fulfilling the tougher average target for fleet CO_2 emissions in the European Union.

Our "consistently Audi" strategy comes in response to the challenges of the future. For example, we will accelerate our push for electrification with around EUR 12 billion of capital investment in electric mobility by 2024. Our marketing activities will also reflect this emphasis: We are planning to devote around 50 percent of our marketing budget to our e-tron campaigns in the 2020 fiscal year.

Sustainability at Audi is furthermore the basis for future-proofing our Company. For product decisions, we consider the return on investment (ROI) after CO_2 effects. The decarbonization index and the NEV share are firmly established in the Audi Group as strategic figures. Following on from our site in Brussels (Belgium), the aim is for our plant in Győr (Hungary) to be certified as a net-zero site as well. In 2020 we will maintain our consistent efforts across the entire value chain to preserve resources and help the topic of sustainability become even more deeply rooted in the minds of our employees and suppliers. Because only in this way will we be able to offer our customers sustainable premium mobility.

2018 and 2019 were dominated very much by our model initiative, efforts to adjust to and prepare for the new emissions requirements of the WLTP test cycle as well as the new requirements for CO_2 fleet emissions. The 2020 fiscal year will be no less challenging. Our clear goal here is CO_2 compliance for newly registered Audi vehicles in the European Union. Our fully electric models – the Audi e-tron and the Audi e-tron Sportback – will be particularly valuable

in that respect. Our plug-in hybrid initiative with the new Audi A6, A7 and A8 models plus the Audi Q5 and Q7 will contribute towards improving our carbon footprint. We also want to further increase the profitability of our electric vehicles in the 2020 fiscal year.
Furthermore, we want to put our customers even more clearly at the focus of what we do. In the future, we will only offer vehicle features that our customers really want. To make sure that is the case, we are involving our customers even more closely in the product development process. In addition, we are working consistently on complexity reduction in our models.

The 2020 fiscal year will also see us push the development of our biggest single market China. That drive will also include promoting our electric initiative. Initial moves since the start of 2020 include the availability of two fully electric models on the Chinese market, the Audi e-tron and Audi Q2 L e-tron. One further fully electric and one electrified model, the Audi e-tron Sportback and Audi A6 L TFSI e, will follow in the course of 2020. This will also involve further optimizing our local production capacities. In Qingdao (China) – the latest site addition to the FAW-Volkswagen production network – we will build the new Audi A3 Sportback, for example, from 2020, followed by the A3 Sedan. At the end of 2020, the Audi e-tron is to go into local production in Changchun (China). We want to be building a total of 12 models locally in China by 2022. In addition, we are expanding our research and development expertise there so that we can bring even more China-specific model versions and digital services onto the market. We also seek to draw more deeply on synergies with the Volkswagen Group, including in China.

We have set ourselves ambitious goals for 2020, for example with the continuation of our electric initiative. This calls for a solid financial basis. To establish that, we started realizing the Audi Transformation Plan (ATP) back in the 2018 fiscal year – it provides the basis for implementing our strategy and for the transformation of our Company. By the end of 2022, we want to leverage EUR 15 billion in efficiency measures with the ATP. Around 80 percent of the measures required have already been identified. Following on from the approach in the 2018 fiscal year, through the ATP we will be exploiting cross-division potential in particular in the 2019 fiscal year. We thus continue to work on optimizing our revenue, costs and processes with a view to becoming even more efficient. In addition, we want to further improve our earnings quality and also the profitability of electric mobility. That will involve further strengthening our market position as a premium car manufacturer, reducing complexity in our products and processes, using synergies in the Group as well as consistently scrutinizing working processes and capital investment.

To guarantee efficient and competitive cost structures, the organizational structures within Audi, but also across the Volkswagen Group, are continuously reviewed. The 2020 fiscal year will see us make even greater use of competition-defining Group synergies for key technologies – for instance through the newly created Car.Software organization. This entity brings together all aspects of vehicle software development under one roof – delivering both cost savings and a competitive edge.

New members will be appointed to the Board of Management of AUDI AG in the 2020 fiscal year. In its new formation, it will continue to consistently push the ongoing repositioning of our Company as well as its operational, strategic and cultural transformation. The main tasks in the 2020 fiscal year stem especially from a difficult market environment, the scaling of electric mobility, the continuing need for huge upfront expenditure for future technologies and the tighter CO_2 regulations.

The Board of Management regards the Company as generally well placed to persistently further the transformation already started. It will therefore also be possible in the future to achieve the strategic target corridor with an operating return on sales of 9 to 11 percent and successfully implement the plans to increase the long-term value of the Audi Group.

The following forecasts on the development of our key performance indicators are subject to various risks and opportunities which could result in the actual development in the key performance indicators deviating from the respective forecast. In particular, the consequences of the spreading of the coronavirus may have a negative impact on the key performance indicators in the 2020 fiscal year. We present the material risks and opportunities of the Audi Group in the Report on Risks and Opportunities.

/ KEY PERFORMANCE INDICATOR FORECASTS

// ANTICIPATED DEVELOPMENT OF DELIVERIES

In the 2019 fiscal year, the Audi Group delivered 1,845,573 vehicles of the Audi brand to customers amid challenging conditions. We expect the environment to remain difficult and volatile in the 2020 fiscal year. We will face challenges in particular from the competitive situation and new legislation – above all on fleet CO_2 emissions. Thanks to our young and attractive models, we nevertheless predict that deliveries of the Audi brand will be approximately at the prior-year level.

For 2020, we expect a regionally heterogeneous development in deliveries of the Audi brand. We anticipate that momentum for growth will come mainly from the Asia-Pacific region, where our deliveries in China – subject to further spreading of the coronavirus – Japan and also South Korea should develop positively. Vehicle deliveries of the Audi brand are also on course for a positive development in Eastern Europe and North America. For the remaining core regions, we expect deliveries in the 2020 fiscal year to be roughly at the previous year's level. The competitive situation especially in Western Europe will continue to be challenging for us.

On the models side, we anticipate that our Audi A6, A7 and A8 full-size models as well as the Q8 will provide a positive volume stimulus. We also expect volume growth for the Audi Q3 and Q3 Sportback models. In addition, we anticipate that our fully electric models – the Audi e-tron and the Audi e-tron Sportback as well as the Audi Q2 L e-tron on the Chinese market – along with our new plug-in hybrid models will contribute to volume growth by the brand with the Four Rings.

// ANTICIPATED FINANCIAL PERFORMANCE

For the 2020 fiscal year, we expect revenue of the Audi Group to be slightly up on the prior-year level, mainly for mix-related reasons. The development in other automotive business should also have a positive impact on revenue performance. There will be opposite effects from expected adverse exchange rate effects compared with the previous year. However, these expectations are dependent on economic conditions and actual exchange rate trends. Compared with the average exchange rates in 2019, we expect the euro to be slightly stronger against the U.S. dollar and Chinese renminbi in the 2020 fiscal year. By contrast, the euro is expected to lose slightly in value against the pound sterling.

We are convinced of our Company's strengths and want to increase the long-term value of the Audi Group. Our goal therefore remains a strategic operating return on sales in the target corridor of 9 to 11 percent. To achieve this, we will need to advance and implement the important structural and strategic decisions of recent years in the 2020 fiscal year For the 2020 fiscal year, we anticipate an operating return on sales in the range of 7.5 to 9.5 percent.

Positive drivers for the development of operating profit will include the improved mix along with effects from the measures implemented under the Audi Transformation Plan (ATP). In addition, in connection with the partnership between Volkswagen and Ford, our subsidiary Autonomous Intelligent Driving GmbH, Munich, will be transferred to VW Finance Luxemburg S.A., Strassen (Luxembourg), before its contribution to the company Argo AI. Subject to the approval of the antitrust authorities, we expect this transaction to have a positive impact on operating profit for 2020. The further expansion of synergies within the Volkswagen Group – especially through the new Car.Software organization – will have a positive effect through the expected resulting reduction in development costs. However, operating profit for 2020 will be held back by continuing high upfront expenditure for the future viability of Audi – for instance, in our electric initiative and in potentially new areas of business relating to autonomous driving and digitalization. Furthermore, we currently anticipate currency and commodity price developments to be negative from our perspective compared with the previous year.

For the 2020 fiscal year, we forecast a return on investment (ROI) for the Audi Group within the range of 13.0 to 16.0 percent. We should consequently once again exceed our minimum rate of return of 9 percent. This return on investment is based on the operating profit forecast. In addition, we currently expect a slight fall in average invested assets. This development is driven, among other things, by measures that are part of the ATP.

// ANTICIPATED FINANCIAL POSITION

The Audi Group again intends to finance itself entirely from internally generated cash flow in the 2020 fiscal year. We expect that net cash flow will be between EUR 3.5 and 4.5 billion. The main drivers of the positive net cash flow should include the development in our core business. In addition, cash inflows from the sale of our subsidiaries Autonomous Intelligent Driving GmbH, Munich – subject to the approval of the supervisory authorities – and Audi Electronics Venture GmbH, Gaimersheim, contribute to the increase. Conversely, continuing high cash outflows for investing activities combined with the upfront spending to ensure the future viability of Audi are likely to have a negative impact on the net cash flow. Cash requirements for continuing obligations in connection with the diesel issue are again expected to have a negative impact on the financial position in the 2020 fiscal year.

// RESEARCH AND DEVELOPMENT COSTS, CAPITAL INVESTMENTS

For the 2020 fiscal year, we forecast a research and development ratio that is likely to be slightly above our new strategic target corridor of 5 to 6 percent. The decrease compared with the previous year is attributable for example to lower research and development activities, achieved by efficiency improvements and deeper synergies within the Volkswagen Group, such as the pooling of development activities in the Car.Software organization. However, high upfront spending on future technologies – especially for our electric initiative – continues to offset these effects.

We will keep the profitable employment of capital in particular focus in the 2020 fiscal year. In that connection, we anticipate a ratio of capex within our new strategic target corridor of 5 to 6 percent. Preparations for the production starts of our new models are likely to be major investment priorities.

Anticipated development in the key performance indicators of the Audi Group

	Actual 2019	Forecast 2020
Deliveries of cars of the Audi brand to customers [1)]	1,845,573	approximately at prior-year level
Revenue in EUR million	55,680	slight increase
Operating profit/operating return on sales in %	8.1	between 7.5 and 9.5 percent
Return on investment (ROI) in %	12.7	between 13.0 and 16.0 percent and therefore above our minimum rate of return of 9 percent
Net cash flow in EUR million	3,160	between EUR 3.5 and 4.5 billion
Research and development ratio in %	7.9	slightly above the strategic target corridor of 5 to 6 percent
Ratio of capex in %	4.9	within the strategic target corridor of 5 to 6 percent

1) This includes delivered Audi models built locally by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China).

REPORT ON RISKS AND OPPORTUNITIES

/ RISK MANAGEMENT SYSTEM IN THE AUDI GROUP

// OPERATING PRINCIPLE OF THE RISK MANAGEMENT SYSTEM

As a company with global operations, the Audi Group is exposed to a dynamic environment. Furthermore, the automotive industry is undergoing a comprehensive process of transformation that is bringing changing customer requirements, value chains and business models. This situation continually confronts us with diverse and new opportunities and risks. Integrity as well as behavior that complies with statutory and regulatory requirements are the basis of our entrepreneurial actions and are treated as a top priority. Our priority is to address opportunities and risks constructively and openly so that we can ensure lasting success with our entrepreneurial activities. The particular purpose of an effective Risk Management System (RMS) – besides fulfilling statutory requirements – is to validate entrepreneurial goals, protect stakeholders against negative corporate developments, fulfill the Company's far-reaching duty of care in respect of how it handles risks as well as protect long-term viability and competitiveness. The Audi Group's responsible approach to risks is reflected in the formulation of ambitious corporate goals that are based comprehensively on risk/return analyses. These are synchronized both Company-wide and with the Volkswagen Group. Our Internal Control System (ICS) is designed to ensure the functioning and stability of our processes. The ICS was comprehensively revised and extended in the past fiscal year. Using a standardized model, all major risk-carrying business processes were assigned control activities by way of safeguards.

The Risk Management System of the Audi Group is based on the internationally recognized standard of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Risks are to be identified, evaluated and appropriately managed by those responsible. A control is also to be carried out on the management of risks. The higher-level internal business units and Group functionalities responsible must communicate in a transparent, accurate and timely manner. All organizational levels of the Audi Group are integrated into the Risk Management System in order to satisfy both business and statutory requirements. Changes in the legal framework with respect to risk management are also continually monitored and are acted on promptly if relevant for the Company. The integration of all material participations into the risk management system is ensured. New companies are gradually integrated.

The RMS/ICS is closely interlocked with the compliance functionality (central governance, risk & compliance (GRC) organization) as part of an integrated and inclusive management approach. The Board of Management and the Supervisory Board, especially the Audit Committee, are kept regularly informed about the RMS/ICS as well as the Compliance Management System (CMS) in a combined report.

*Information on **integrity and compliance** can be found on **pages 60 ff**.*

The central tasks of risk management are to identify and analyze risks, ensure transparent reporting of these risks and improve their controllability using suitable risk management tools. This process also creates scope for generating and exploiting opportunities. According to the COSO framework, risk-appropriate internal controls are defined along the entire value chain and their implementation is monitored (ICS). The Audi Group promotes the further development of the RMS/ICS through cross-divisional and cross-company projects. The priority here is to interlink the system closely with corporate financial planning and management, as well as with accounting. In view of its high strategic relevance, the regulatory framework for the RMS/ICS is firmly established both in an internal Corporate Policy of AUDI AG and in the policies of the material participations.

To systematically structure its risk management architecture, the Audi Group follows the “Three Lines of Defense” model – a recommendation of the European Confederation of Institutes of Internal Auditing (ECIIA). On this basis, the RMS/ICS of the Audi Group features three lines of defense that are intended to protect the Company against the occurrence of material risks.

The “Three Lines of Defense” model

Supervisory Board		
Board of Management		
First line of defense	Second line of defense	Third line of defense
Divisions	**Central GRC organization**	**Internal Audit**
Operational risk management	Coordination of control processes, governance and methodology	Audit of RMS/ICS

The individual AUDI AG divisions and participations are responsible for the operational management of risks and their control, as well as for reporting on them. They represent the first line of defense.

In the second line of defense, the central GRC organization takes charge of the fundamental functionality of the RMS/ICS as well as the CMS. Core activities involve monitoring system performance and submitting an aggregated report on the risk situation to the Board of Management and the Audit Committee of the Supervisory Board. This ensures that the statutory requirements for the early identification of risks and the effectiveness of the RMS/ICS are met. Ad hoc projects on operational risk management and regular training courses are also held to reinforce awareness of risk management and compliance as well as promote a positive risk culture in the Audi Group. Mandatory training and function-specific training programs are aimed at various specific target groups. AUDI AG also has GRC officers who liaise between the first and second lines of defense. At the participations, this function is handled by clearly designated risk and compliance officers.

In the third line of defense, Internal Audit as an impartial body examines the security, regularity and economic effectiveness of the systemic and operational activities of the RMS/ICS. The RMS/ICS for accounting is additionally subject to scrutiny by the independent auditor of the consolidated financial statements.

Each line of defense furthermore submits reports independently and at least ad hoc to the full Board of Management and the Supervisory Board of AUDI AG.

// OPERATING PRINCIPLE OF OPPORTUNITIES MANAGEMENT

To secure the sustained success of the Audi Group it is necessary, as well as managing risks effectively, to identify and use entrepreneurial opportunities. In all business decisions that have a long-term impact, we therefore consider not only the risks, but also the opportunities that they present. Opportunities management – which includes such aspects as optimizing revenue, costs and products – is integrated into the operational and organizational structure of the Audi Group and is closely aligned with our strategic objectives. To that end we continuously analyze the international context for potential impacts on the business model in order to identify trends and industry-specific key factors early on. Relevant developments are studied in detail with the help of scenario analyses. The possible impact on Audi is identified jointly with Strategic Corporate Planning, the divisions affected and the Controlling area. The purpose of this cooperation is to create and exploit opportunities. Medium and short-term potential opportunities are identified and operationalized by the divisions. We also aim to secure our long-term competitiveness and future viability through efficiency and opportunities initiatives, such as the Audi Transformation Plan (ATP), as well as ad hoc through benchmarking. Over and above pursuing specific targets, further opportunities may come to light when implementing these initiatives. No quantification of opportunities is performed in this report because, although this task is required for internal control and reporting to the Board of Management, it is not done to the same level of detail and with the same systematic depth as for risk management.

// INTEGRATED RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM FOR THE FINANCIAL REPORTING PROCESS

The financial reporting section of the RMS/ICS that is relevant for the financial statements of AUDI AG and the Audi Group contains all measures that are designed to ensure the complete, accurate and prompt communication of all relevant information. Its purpose is to minimize or altogether avoid risks associated with the preparation of the AUDI AG financial statements and the consolidated financial statements as well as the Combined Management Report.

In light of the decentralized organization of the accounting system in the Audi Group, the consolidated companies for the most part handle accounting tasks independently. In individual instances, tasks are passed on to AUDI AG and companies of the Volkswagen Group on the basis of service agreements. The individual financial statements of AUDI AG and the participations are prepared in keeping with the applicable national legislation and transferred to the consolidated financial statements of the Audi Group in accordance with IFRS.

The IFRS accounting manual issued by the Volkswagen Group is used in order to ensure uniform accounting and measurement principles that are in accordance with the applicable accounting standards. The Audi Group guideline for the annual financial statements details further rules on the scope of reporting and the definition of the group of consolidated companies for the consolidated financial statements, as well as the uniform application of statutory requirements. Intra-Group business transactions are duly reflected by means of proven processes and instruments such as comprehensive rules on the reconciliation of balances between the Group companies.

At Audi Group level, the IFRS individual financial statements of the participations are analyzed and validated as part of control activities. The reports presented by the independent auditors and the findings of the concluding discussions with representatives of the individual companies are also taken into account. Systematic plausibility checks are run to some extent automatically, but are also conducted by experts. Complex specific matters are regularly coordinated during the year between the consolidated financial statements department and the participation in question. The dual control principle and the separation of functions are likewise applied as key tools in assuring that the financial statements are prepared properly by the Group companies. In addition, Group Auditing examines the regularity of the financial reporting process for domestic and foreign companies. Changes in the statutory framework and prescribed standards with respect to the financial reporting process are continually monitored and are acted on promptly where relevant for the Company. This ensures compliance with standards.

Financial reporting is mapped on the basis of the Group-wide Volkswagen consolidation and corporate management system (VoKUs). Furthermore, information is continually shared with Volkswagen Group Accounting. VoKUs contains both historical data from Accounting and planning data from Controlling, and as such provides extensive scope for consolidation and analysis. The system also offers central master data management, a uniform reporting system, an authorization concept and maximum flexibility to adapt to changes in the legal framework. Data consistency is checked with the aid of systematic, multi-stage validation functions, such as completeness and content plausibility checks on the balance sheet, cash flow statement, statement of comprehensive income, income statement and notes.

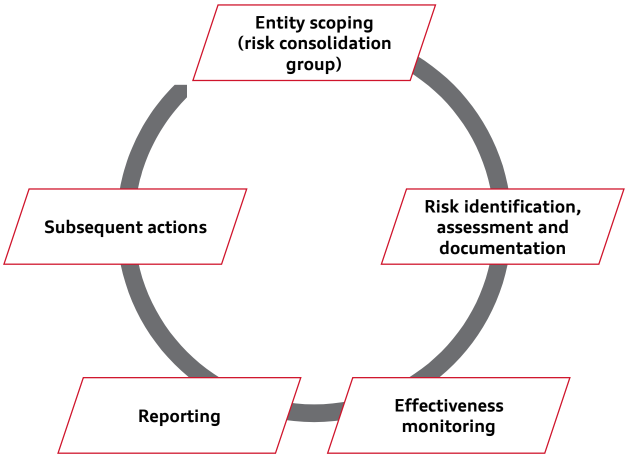
// RISK EARLY WARNING SYSTEM AND MONITORING EFFECTIVENESS

The early identification obligations of the Board of Management concerning risks that are a threat to the Company as a going concern are governed by Section 91, Para. 2 of the German Stock Corporation Act (AktG). Section 107, Para. 3 of the German Stock Corporation Act (AktG) furthermore obliges the Audit Committee of the Supervisory Board to monitor the effectiveness of the RMS/ICS. The Board of Management is responsible for the organizational structure of the RMS/ICS.

The Group-wide risk management control processes play a key role in meeting statutory requirements. Under the regular GRC process, fundamental recurring risks, countermeasures and controls within the Company are systematically identified, evaluated and documented so as to generate an overall picture of the risk situation. Meanwhile, the effectiveness of the control processes and overall system is assessed.

To establish the short and medium-term risk situation, the acute operational risks are determined and evaluated quarterly (Risk Quarterly Process). The independent auditor assesses annually the suitability of the measures taken by the Board of Management pursuant to Section 91, Para. 2 of the German Stock Corporation Act (AktG).

/// REGULAR GRC PROCESS



//// RISK CONSOLIDATION GROUP

The risk consolidation group comprises all relevant companies of the Audi Group and is formed by a uniform selection process in which all participations and other relevant companies are assessed according to quantitative and qualitative features, and classified according to risk criteria. In the 2019 fiscal year, there were 22 companies fully integrated into the regular GRC process in addition to AUDI AG.

Germany:

- AUDI AG
- Audi Electronics Venture GmbH
- Audi Interaction GmbH
- Audi Sport GmbH
- PSW automotive engineering GmbH

International:

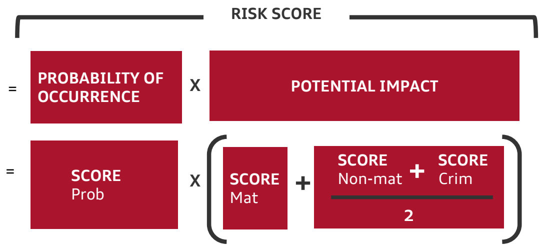
- Audi Australia Pty. Ltd.
- Audi Brussels S.A./N.V.
- Audi Canada Inc.
- Audi (China) Enterprise Management Co., Ltd.
- Audi do Brasil Indústria e Comércio de Veículos Ltda.
- Audi Hungaria Zrt.
- Audi Japan K.K.
- Audi México S.A. de C.V.
- Audi of America, LLC
- Audi Singapore Pte. Ltd.
- Audi Tooling Barcelona S.L.
- Audi Volkswagen Korea Ltd. *
- Audi Volkswagen Middle East FZE *
- Audi Volkswagen Taiwan Co., Ltd. *
- Automobili Lamborghini S.p.A.
- Ducati Motor Holding S.p.A.
- Italdesign Giugiaro S.p.A.
- Volkswagen Group Italia S.p.A. *

Participations that are not included in the risk consolidation group are included in the Risk Management System of the Audi Group on the basis of Group-wide minimum requirements. This is subject to a majority interest or management responsibility being held. With the deconsolidation of the multi-brand sales subsidiaries marked with * in 2019, these will be passed over to the risk consolidation group of the Volkswagen Group from 2020.

//// RISK IDENTIFICATION, ASSESSMENT AND DOCUMENTATION

Under the regular GRC process, the risk managers in the respective divisions and departments as well as the participations record and evaluate the risks that fundamentally apply to the Audi Group once a year using a specially developed IT system. Risks are evaluated using a standard procedure for the Volkswagen Group. The risk score calculated in this way for each risk is obtained by multiplying the probability of occurrence (Prob) by the potential impact. The probability of occurrence is determined by the risk manager based on ranges. The potential impact is broken down into various subcategories. This allows criminal-law aspects (Crim) to be considered as well as material (Mat) and non-material (Non-mat) evaluation aspects. For each of these criteria, the evaluation made is given a score ranging between 0 and 10. We fundamentally adopt the net perspective, in other words the probability of occurrence and potential impact are considered after any countermeasures already taken. The appropriateness and plausibility of risk reports are examined on a random basis in more in-depth interviews conducted by the central GRC organization with the appropriate divisions and companies.

Formula for calculating overall risk score



The score for a probability of occurrence higher than 50 percent in the period under review is described as high; a probability of occurrence of at least 25 percent means the score is classified as medium. For the criterion of financial loss, the score rises along with extent, reaching the maximum score of 10 for a loss upward of EUR 1 billion. The criterion of loss of reputation may assume attributes ranging from a local crisis of confidence, through a local loss of confidence, right up to regional or international loss of reputation. Relevance under criminal law is classified on the basis of influence on the local company, the brand or the Group.

//// *MONITORING OF EFFECTIVENESS, REPORTING AND SUBSEQUENT ACTIONS*

By way of a functionality check, the regular GRC process includes departments or external assessors conducting an effectiveness check of all material risks, and also of risks with designated significantly risk-reducing countermeasures and management controls. If effectiveness is deemed inadequate, the department in question must carry out improvements as a subsequent action. The central GRC organization monitors timely implementation. The regularity and effectiveness of selected elements are also monitored by Internal Audit in its capacity as an impartial body.

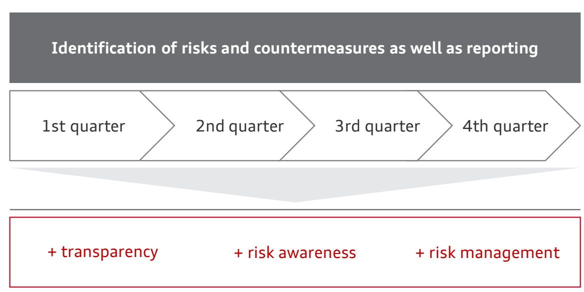
The status and evolutionary developments of the RMS/ICS are reported to the Board of Management and the Audit Committee of the Supervisory Board both on a regular and an ad hoc basis. Risk reports are submitted to the Board of Management of AUDI AG, depending on the materiality thresholds. Thus, the ten highest systemic risks from the regular GRC process are reported.

/// *RISK QUARTERLY PROCESS AND AD HOC ANNOUNCEMENTS*

The regular GRC process is supplemented by a Risk Quarterly Process (RQP) that represents the current operational risk situation of the Audi Group. Its focus is on implementation of countermeasures and the associated short-term management of risks. In an initial step the overall risk situation as well as accompanying countermeasures are presented to top management in the Audi Executive Committee (AEC) on a quarterly basis, examined and then reported to the Board of Management. All risks from the RQP with a risk score of 20 or higher are reported. Any further countermeasures are initiated by the AEC and Board of Management as appropriate. This serves to increase risk transparency, further raise risk awareness in the Company and ensure effective, prompt risk management. The evaluation of risks from the RQP is synchronized with the regular GRC process.

In 2019, the new IT tool "Risk Radar" was introduced to map the RQP. This increases process reliability and data security while reducing the manual input through automated workflows and comprehensive system support in data evaluation. Also, since the year under review the operational risks from the RQP have been a regular component of the new key figures cockpit for the Board of Management, for even greater transparency in reporting. In this way, the management relevance of the risks has been further strengthened.

Risk Quarterly Process (RQP)



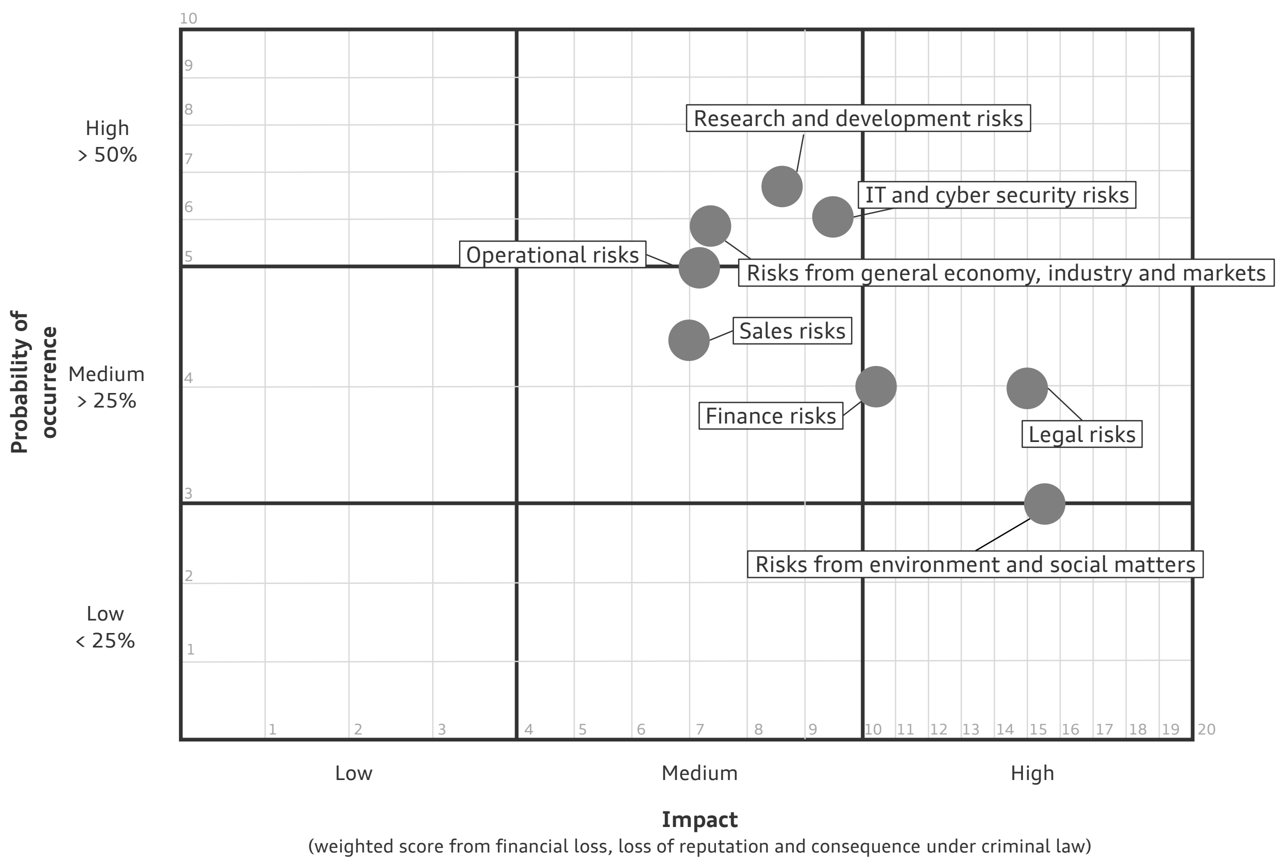
In addition, a separate ad hoc process is used to deal with significant changes in the risk situation that may occur at short notice due, for example, to unexpected external events. A significant change in the risk situation occurs if there is a risk that poses a threat to the Company as a going concern or to its strategy, or if critical monetary threshold values are passed (material damage > EUR 500 million) and, despite risk management measures, the risk is expected with increased probability (with a probability of more than

50 percent within the next 24 months). Other potential triggers include serious inaccuracies in financial reporting and compliance breaches. All Group companies are obliged to inform the Board of Management of AUDI AG and the central GRC organization of such developments by means of an internal ad hoc announcement. Priority is given to defining preventive measures for limiting losses, communicating the updated risk situation to the corporate bodies and examining whether an ad hoc announcement needs to be published in accordance with capital market principles.

/ *RISKS AND OPPORTUNITIES OF THE AUDI GROUP*

The most significant risks and opportunities for the Audi Group are described below. Based on current assessments, these have been categorized as materially relevant to future development and may lead to negative or positive deviations from the key performance indicators forecast. In addition, further risks are recorded in the internal risk reports. However, because they are currently rated as low, these are not described in detail in the following. The basis for the risks stated comprises both the regular GRC process and the RQP. The opportunities listed are determined analytically and are operationalized when they become sufficiently specific. In addition, latent risks and opportunities that exist for the Audi Group are listed. For the sake of clarity, the risks and opportunities are presented in various categories. The top risks described below are also reported to the Board of Management and Supervisory Board. Unless explicitly mentioned, there are no material changes in the individual risks and opportunities compared with the previous year.

Overview of risk categories of Audi Group in 2019



Individual risks from the RQP with a score of 20 upward as well as the top 10 risks from the GRC process (from a score of 26.5 in 2019) are reported on in the following. The level of the risks is presented in descending order based on the risk score within each category and indicated across all categories by way of an overall assessment of the risks and opportunities situation. As an exception, no score-based ranking is performed for legal risks in order not to adversely affect the position of our Group in legal disputes.

// RISKS FROM GENERAL ECONOMY, INDUSTRY AND MARKETS

There are fundamentally economic risks for the Audi Group from external developments that it is unable to influence.

The trade sanctions that currently exist between the United States and China may consequently also have a negative impact on our supply chain, above all on preliminary suppliers of electronic modules. This creates the risk of a supply gap and a corresponding loss of earnings. We address this risk, which appeared for the first time to this extent in the year under review because of the acute heightening of the trade dispute, through permanent monitoring by a cross-division task force, banking stocks of the parts affected and working on alternative solutions for individual components.

In China, there currently exists CO_2 legislation in two areas. This concerns fleet emission stipulations (CAFC) and a quota arrangement for electric vehicles (NEV share). The increasingly tough requirements create the risk that the vehicles built locally at our associated companies might temporarily miss these targets due to delays in the electrified vehicle portfolio and the need for technical adjustments. This could impact our sales and earnings figures. To reduce the risk, we permanently review the portfolio, product and volume plans and consider whether to transfer credits within the Volkswagen Group. The risk was recorded for the first time in 2019.

In addition, the United Kingdom's exit from the EU on January 31, 2020, will have macroeconomic and political consequences that are likely to be considerable for the Audi Group, should both sides be unable to agree a comprehensive trade deal during the transition period (currently ending on December 31, 2020). A possible collapse in the overall local passenger car market would also adversely affect our volume development in the automotive and accessories area. Possible consequences could stem, for example, from a potential economic slowdown or recession, for example, a possible further devaluation in the pound sterling and additional import duties on vehicles. In addition, extensive border checks may lead to delays in the supply of vehicles to the market at the sales end as well as in our supply chain. To manage the risk, a cross-division working group was set up to define and coordinate countermeasures and monitor their implementation. The risk already recorded in the 2017 fiscal year continues to be rated as high, and now relates to the end of the transition period in December 2020.

With the intensification of the coronavirus outbreak in China at the start of 2020, we expect there to be negative effects on the Chinese car market that we will be unable to avoid. Because of the extended public holiday following Chinese New Year and regionally varying quarantine rules and closures, we expect to miss the planned delivery targets especially for the first quarter. In addition risks may arise from delays to imports and in production at our associated companies in China. The precise impact depends on when cases of this infectious disease peak. We are in permanent dialogue with our Chinese sites in an effort to analyze the situation and manage supplies at short notice. Pandemic plans have been implemented locally and coordinated by Volkswagen Group China. In addition, risks may arise due to delays to imports and in production at our associated companies in China and as a result of supply bottlenecks in connection with Chinese suppliers at our worldwide production plants. This risk was newly recorded after the reporting date.

An intensification of current international trade disputes – above all between Europe and the United States – potentially leading to the raising of import tariffs could adversely affect the development of our deliveries volume and therefore also our financial key figures. We endeavor to take account of this risk to the best of our ability by means of ongoing tracking and possible price adjustments. In addition, over the medium and long term there is the possibility of countering these risks through regional adjustments to the value chain. This risk remains unchanged compared with the previous year.

In view of the increasingly tough demands and growing complexity of market-specific statutory regulations, for example for electric vehicles, there is the risk that it may not be possible to implement required changes to product characteristics adequately during product development. This may have an effect on our planned volume. We address this risk, which increased in the year under review, by drawing up various packages of measures.

The economic environment is generally of major importance to the business success of our Company. Our focus is especially on the sales markets in Europe, the United States and China. There are risks to economic development from potential turbulence on the financial markets, protectionist trends, political upheaval and structural deficits in individual countries. The situation of a number of financial establishments in the southern eurozone, the danger of trade policy measures such as tariffs as well as the high indebtedness of the private and public sector in parts of Europe further exemplify this type of risk. The monetary policy of the central banks is also important in this regard. In addition, geopolitical tension and conflicts can suddenly influence the economic development of individual countries and regions. A further escalation of conflicts in individual regions could also trigger fluctuations in worldwide financial, energy and commodity markets. Social conflicts, terrorist activities or pandemics could equally have a negative effect. Corruption, inadequate government structures and a lack of legal certainty continue to pose risks. As there may be marked deviations from our planning in the economic development of individual regions and countries, reflected for example in deliveries, price enforcement and consequently plant utilization, there are risks to the attainment of volume and profit goals. As a countermeasure we can draw on the support of our worldwide sales network to compensate for market weakness in certain countries by shifting volumes to other markets. Furthermore, for risk management, we employ comprehensive risk early warning systems with which we continuously monitor sales markets. We also conduct market research and maintain a regular dialogue with our counterparts in the sales regions. In this way we seek to secure the competitiveness and long-term commercial success of the Audi Group – with the help of our strong brand, an attractive product portfolio, the focus on premium quality and a clear emphasis on future technologies. We respond to short-term developments with market-specific measures and management tools. Thanks to fundamentally needs-based production planning, we are able to respond flexibly to fluctuations in demand and adjust our capacities in line with market demand, if required. However, the Audi Group too would have difficulty resisting global economic weakness or a downturn in demand as a reflection of societal trends.

The automotive industry is experiencing a transformation process involving radical change. Electric powertrains, connected cars and autonomous driving bring both opportunities and risks for our deliveries. In particular, the growing pace with which customer requirements change, legislative initiatives taken at short notice and the market entry of new competitors, who are possibly new to the industry, will necessitate modified products, an increased pace of innovation and adapted business models. The extensive use of electric vehicles and the availability of the necessary charging infrastructure bring uncertainties.

// OPPORTUNITIES FROM GENERAL ECONOMY, INDUSTRY AND MARKETS

A positive economic development in the principal sales markets beyond general expectations could create additional sales potential for the Audi Group. To realize these opportunities, Audi is steadily increasing its market presence especially in the growth markets. The international production network is helping the Audi Group to meet specific customer requirements flexibly. To exploit opportunities afforded by innovative solutions and new technologies at an early stage, economic developments and customer requirements are continually monitored worldwide.

Extensive megatrends offer diverse opportunities which we want to exploit. We have set ourselves the goal of making our cars an integral part of everyday digital life for our customers. We are therefore supplementing our existing business model with new digital services. The scaling of our mobility concepts and services also unlocks extra business potential. In addition, digitalization gives us the opportunity to further streamline our processes in order to leverage extra potential for efficiency.

In the medium and long term, we also expect our electric initiative and the development of additional innovative drive technologies to provide fresh stimulus for the market. In the year under review, for example, the Audi e-tron, our first volume-built fully electric vehicle, was brought to market. In addition, we offer our customers five new models with plug-in hybrid drive. The Audi e-tron will be followed by an array of other fully electric vehicles and models with plug-in hybrid drive over the next few years.

We see further opportunities in the area of automated driving and in the use of artificial intelligence. It will also be necessary to rethink and redefine individual mobility, and offer new solutions.

Alongside the megatrends we intend to use the opportunities created by further developments in the automotive industry. For example, there are opportunities for growth from the continuing expansion of our SUV portfolio in the year under review.

An easing of the current trade disputes leading to a lowering of import tariffs could improve the economic conditions. That could, in turn, increase our customers' willingness to buy.

// RESEARCH AND DEVELOPMENT RISKS

In the automotive industry, the development of new technologies in particular leads to high upfront expenditures in the form of development costs and capital investment. For the most part these are spread over several years and only pay off over the course of the product life cycle, which also stretches over several years.

There is the risk here of deviations in vehicle and powertrain projects from the planned project goals during the product process. The reasons for technical, temporal, content-related or financial deviations may include changes in statutory or market requirements, altered customer expectations or shifts in planning assumptions. The high complexity of completely new projects – which are also developed jointly with other Group companies to create economies of scale through platforms, carry-over parts and common software architectures, for example – may equally lead to delays and missed targets. To counter these risks, we have implemented a systematic product process in the Audi Group with clear milestones, quality approvals, permanent monitoring and clear responsibilities. This also takes account of new requirements that arise from the future topics of electrification and digitalization as well as from technology partnerships. In addition to the separation of functions and principles of multiple-party control, the process entails a wide range of management and monitoring tools, along with regular reporting to the Board of Management and top management to validate both the projects' maturity and their financial objectives. New products are defined on the basis of a comprehensive analysis of the environment and customers. The main revenue and cost drivers in the product development process are managed and monitored by the Controlling area as well as by project management. The indicators applied for this are for the management of project-based cost and pricing, and for corporate financial management. In addition, needs-based task forces are being put in place and additional capacities are being created in the areas affected. The risks remain unchanged compared with the previous year.

In connection with our new strategic focuses of electrification and digitalization, there is an unchanged risk from the previous year of a delay to the ongoing development of the cross-platform electronics architecture, which serves as the enabler for key technologies such as highly automated driving and digital functions. To keep to the timetable, alongside regular reports to the Board of Management, special timetables for vehicle testing/validation have been drawn up, extra resources commissioned from suppliers and catch-up programs defined. In addition, by bringing together digital development topics for products of the Volkswagen Group within the new Car.Software organization, the aim in the future is to standardize processes and leverage synergies.

Increasingly tough legislation on vehicle approvals presents Audi with major challenges. These include technical feasibility, organizational affordability, on-schedule implementation and the need to adjust development processes in order to reflect new requirements. The development and market introduction of functions associated with highly automated driving and other future topics call for wider, integrated approaches to the development of complex and connected systems. The increased demands on process quality and process compliance in product engineering, including from a product liability perspective, need to be met.
To ensure that is the case, state-of-the-art development needs to be demonstrated, using an auditing method applied during the development phase, for example. This could also become relevant to approvals in the future. Without evidence of a particular maturity level there is the risk that customer-relevant and purchase-influencing innovative functions cannot be offered, entire vehicle models might fail to achieve approval and increased product liability risks might arise.
Audi addresses this matter through a Company-wide project with the goal of further optimizing the process and development environment until it meets these extended criteria.

Because of the high complexity of market-specific statutory requirements and the speed with which they are changing, there is the risk that it may not be possible to implement required changes to product characteristics adequately during product development. Violations may result in, for example, sales restrictions, penalty payments, image losses as well as other financial costs. As a countermeasure, we regularly and extensively scrutinize our internal processes and revise them. We also introduce control mechanisms including a review process. This risk has not changed compared with the previous year.

The automotive industry is undergoing a fundamental process of transformation. Companies with worldwide operations such as Audi face major challenges in the areas of customer/market, technological progress and legislation. One core task involves implementing the ever-tougher emissions and consumption regulations, taking account of new test methods and test cycles (e.g. WLTP), as well as complying with approval procedures (homologation) that are becoming increasingly complex and time-consuming, and may differ from country to country. At national and international level, a large number of legal requirements regarding the use, handling and storage of substances and mixtures (including restrictions on chemicals, heavy metals, biocides, persistent organic pollutants) affect both the manufacturing of cars and the cars themselves. The economic success and competitiveness of the Audi Group depend on how far we are able to align our product portfolio swiftly with the changing environment. In view of the intensity of competition and the speed of technological development, for example in the area of digitalization or automated driving, it is crucially important to identify relevant developments early on and respond accordingly.

// RESEARCH AND DEVELOPMENT OPPORTUNITIES

Being part of the Volkswagen Group offers diverse synergy potential, for instance in the form of joint development projects for vehicle architectures, modules and components. The advantages for the development of fully electric vehicles include above all the modular electric drive matrix (MEB) used in the Volkswagen Group as well as the Premium Platform Electric (PPE), which is being developed jointly with Dr. Ing. h.c. F. Porsche AG, Stuttgart.

Further synergies and efficiencies are also possible through the Group-wide pooling of software development activities in the new Car.Software organization. Complementing this, the systems engineering organizational approach in our Technical Development offers further opportunities concerning the speed and quality of our development processes and additional synergies in the Volkswagen Group.

// OPERATIONAL RISKS

Because it has to deal with a large number of country-specific legal systems and standards, the Audi Group is confronted with an increasingly complex regulatory framework governing the approval of its vehicles. This presents the risk of failing to meet certification requirements and/or approval-related standards. Restrictions on approval as well as sales bans could consequently be imposed, or there could be delays to the market introduction of our products. The Audi Group addresses these risks through ongoing monitoring of the legal framework as well as through processes and control systems that include suitable reporting. The countermeasures are continually refined and are supported by specific IT systems. Regulatory complexity results in a constant risk assessment compared with the previous year.

A further operational risk stems from the supply of battery cells for our fully electric vehicles. Technical modifications and capacity bottlenecks at supplier companies may result in undersupply situations that could adversely impact plant utilization, and in turn cause supply gaps with negative effects on volume, profit and CO_2 targets. The impact of this risk, which emerged for the first time in the 2019 fiscal year, is being managed to the best possible extent via continuous monitoring and by building up capacity at further suppliers.

Field measures for certain engines and the resulting change in their characteristics could potentially lead to interactions with other components. To avoid negative effects for customers or even safety risks, these are closely monitored through the quality control loops and addressed through countermeasures such as software solutions, as required. Audi is also in dialogue with the relevant government agencies. This risk is unchanged from the previous year.

There are in addition latent risks in connection with our supply chain. Fluctuations in our production may lead to violations of contractually agreed terms with corresponding financial consequences. Disruptions to the supplier network and its environment can also cause temporary supply bottlenecks. Their causes may include natural disasters, political unrest and strikes, but also economic crises, as well as quality problems and disrupted or lost production at suppliers and their own suppliers. In addition to permanently analyzing the wider situation, we manage supply-chain risks by preventive and reactive risk management within Procurement.

In addition, decisions on the awarding of contracts to suppliers are subject to rigidly defined processes and are reached on the basis of a risk assessment. Comprehensive scenario and future analyses, emergency plans and appropriate insurance cover are also adopted to reduce risks. Furthermore, the Audi Group continues to develop its crisis organization to reinforce Group-wide crisis management.

Volatile developments on worldwide car markets, accidents at suppliers and disruptions in the supply chain cause output to fluctuate at certain plants, affecting individual vehicle models. We use proven tools, for example flexible working hours models, to tackle such fluctuations. The production capacities are planned several years in advance for each vehicle project, based on the expected sales performance. This performance is subject to market developments and is fundamentally uncertain. If forecasts are too optimistic there is the risk that capacities will not be used fully. On the other hand, excessively pessimistic forecasts carry the risk of undercapacity, in which case it may not be possible to meet customer demand. It is possible that Audi or its main suppliers will not be able to adjust production capacity sufficiently if demand fluctuates beyond their technical flexibility. The diversity of our models is increasing, especially ahead of the forthcoming electric initiative, while product life cycles are getting shorter. Our sites worldwide therefore have to handle more and more vehicle production starts. The processes and the technical systems we use for this are complex, creating the risk that we may experience a delay in delivering vehicles. We address this by validating the unit totals and quality of vehicle production starts throughout the Group based on experience from previous production starts and by identifying weaknesses promptly.

We strive to identify and rectify quality problems in our products during their very development, in order to prevent delays to the production start. Because our modular assembly matrix strategy means that we are using increasing numbers of modular parts, it is especially important to identify the causes of any disruptions swiftly and rectify faults. Non-conformity in internally or externally sourced parts or components may lead to time-consuming and costly solutions such as recalls, which in turn damage our reputation. In addition, the financial impact of such action may exceed the provisions set aside for that purpose. To meet our customers’ expectations and minimize warranty and goodwill costs, we are continuously optimizing the processes applied by our brands to prevent such disruptions.

Quality problems may necessitate technical intervention that could impose a significant financial burden, especially if there is no or only limited scope for passing on such costs to the supplier. For example, it cannot be ruled out that the recalls to various models equipped with certain airbags may be widened.

In addition, risks can result from our financial key figures if cost savings already taken into account cannot be realized as intended.

// OPERATIONAL OPPORTUNITIES

Through the Audi Transformation Plan (ATP), we want to scrutinize, query and improve mainly procedural, cross-disciplinary and structural issues, as well as improve efficiency and reduce complexity. The plan also offers scope to pinpoint and utilize further potential. The expansion of virtual development brings cost savings and greater flexibility, for example. Optimized management of deadlines and financial targets is designed to leverage extra potential.

The growing use of Group-wide platforms, modules and joint developments, along with the associated increased use of carry-over parts in the Volkswagen Group, creates further opportunities for reducing direct material costs. A sharper-than-expected reduction in battery prices could also bring down our cost of materials.

// SALES RISKS

There is a fundamental risk to market supply through our global dealer network in connection with possible changes in the Company's strategic direction, in China for example. Volume and profit risks could result from this. Risk management is conducted by means of an ongoing dialogue with our partners regarding the details of cooperation, as well as through regular reporting to top management.

The fact that exhaust, emission and homologation regulations vary worldwide and are being tightened in increasingly short cycles continues to present us with the challenge of assuring a complete range of all engine/transmission versions in all regions. This can mean individual model versions are temporarily unavailable, with a negative impact on volume and therefore on our financial key figures. To minimize the risk, the processes in the development areas affected were refined and capacities increased. We are also revising, optimizing and simplifying our powertrain portfolio in response. This risk is still classified as high, as in the previous year.

In addition, there are increased volume risks especially in Europe, due to market developments and the competitive situation among other factors. We attempt to address these risks with an attractive product portfolio and by constantly ensuring our models are positioned competitively. We also use targeted sales promotion measures to reduce the risk.

The intensive competitive situation worldwide is a latent risk for the development of the industry and therefore also for the Audi Group. It manifests itself through restrictions in price enforcement or the increased use of sales incentives, for example. Furthermore, new competitors from previously separate industries are emerging as challengers to the classic automotive industry. We are responding to this development by focusing on the transformation of our Company. Our customers also appreciate our progressive brand and attractive product range, coupled with the distinctive design and high quality of our products. In addition, we actively watch and manage markets, and open up new areas of business.

// SALES OPPORTUNITIES

Our young, attractive product portfolio with its growing share of electric vehicles as well as new mobility services creates additional opportunities for optimizing revenue. We also want to generate further growth using functions that can be booked after a vehicle has been purchased (functions on demand). In addition, we want to create further growth in both established and emerging markets.

Increasing digitalization furthermore offers additional scope to create new sales channels in partnership with retailers and to give greater priority to customer requirements. In conjunction with our attractive range of electric vehicles, focusing our marketing activities on electric mobility also offers extra market potential. In addition, we want to use our new strategy to strengthen our brand and thus increase price acceptance by premium customers. This will create additional opportunities for sustainable, qualitative growth.

// RISKS FROM ENVIRONMENTAL AND SOCIAL MATTERS

A prolonged failure to address market-determining sustainability and responsibility aspects in our products and processes could lead, among other things, to significant competitive disadvantages, image losses, volume losses or violations of the law. Based on the new strategy, specific goals and scopes of responsibility were defined and project plans drawn up to counteract this risk. These are managed both brand-wide and Group-wide through central functions, committees and work groups. In the 2019 fiscal year, we also pressed ahead with our Sustainability Roadmap, through which we use defined key figures to monitor and manage attainment of our sustainability goals. Awareness-raising measures to promote sustainable action by the management and employees as well as the systemic embedding of sustainability aspects in our management and decision-making-processes also counteract this risk. This risk has not changed compared with the previous year.

Since 2009, passenger cars and light commercial vehicles have been subject to CO_2 limits in the European Union. The average target applicable until 2019 of 130 g/km for vehicles newly registered in their year of sale will be tightened to 95 g/km from 2020. This fleet limit value is based on the New European Driving Cycle (NEDC); from 2021 the fleet targets of the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP) will need to be met. To realize a technically comparable tightening in pursuit of the NEDC and WLTP fleet targets, the NEDC fleet limit values will transition to a WLTP target from 2021 by a legislatively specified process. This will depend for instance on manufacturer-specific differences between NEDC and WLTP. In the years 2025 and 2030, the fleet limit values will be cut by a further 15 and 37.5 percent respectively compared with the fleet limit values in the EU in 2021.
These goals can only be achieved with a high proportion of electric vehicles. If the fleet targets are not met, penalty payments of EUR 95/g CO_2 will be incurred. In parallel, fleet consumption regulations are also being refined or introduced outside EU28, for example in China and the United States.

The technical expertise and individual commitment of the Audi Group's employees are essential to its success. Our strategic, integrated approach to human resources development offers all employees attractive training and development opportunities. Enhancing specialist expertise in the Company's various job families is especially important. By intensifying training programs, above all at the international sites, we are suitably equipped to tackle the challenges of technological change.

The ongoing digitalization of our HR processes brings risks associated with the processing of personal data. Volkswagen is aware of its responsibility when processing such data. We take comprehensive measures within our data protection management system to address these risks.

// OPPORTUNITIES FROM ENVIRONMENTAL AND SOCIAL MATTERS

The mission field "consistently sustainable" is one of the main pillars of our "consistently Audi" strategy. It is about more than simply making our Company sustainable. By embedding sustainability aspects in our products and processes, we can also attract new customer groups and increase public awareness of the Audi brand.

Our ongoing culture change and activities in the integrity area as well as our restructured human resources marketing measures will enable us to address the future skills shortage and ensure that Audi remains an attractive proposition for graduates and employees in the future.

The fundamental agreement on structural matters reached with the employee representatives in November 2019 within the framework of "Audi.Zukunft" creates further opportunities for the Audi Group. Especially the optimization of the strategic production capacity at the two German sites and socially responsible workforce adjustments along the demographic curve with an extended job guarantee through the end of 2029 can generate extra opportunities.

// LEGAL RISKS

AUDI AG and the companies in which it holds direct or indirect interests are involved in a large number of legal disputes and official proceedings nationally and internationally. Such legal disputes and proceedings involve or arise in connection with, for instance, employees, authorities, service providers, dealers, customers, suppliers, products or other contractual parties. Financial charges such as fines as well as other obligations and consequences may arise for the companies involved in such processes. In particular, high compensation or penalty payments may be imposed and costly measures may be rendered necessary. In this case, it is often not possible, or only possible to a very limited extent, to attach a specific amount to the objectively imminent consequences.

In addition, risks may arise with regard to compliance with regulatory requirements. That is especially the case with regulatory margins of discretion, where Audi and the government agencies in question may arrive at differing interpretations. Furthermore, criminal actions by individuals, which even the best compliance management system can never altogether rule out, may create legal risks.

We are also exposed to a latent risk of litigation, especially in the areas of competition and antitrust law, product liability and patents. New risks may arise in the future above all in light of advancing digitalization. Necessary decisions and actions in all legal areas are therefore backed up with the expertise of the Audi internal legal counsel. In selected cases we also consult external legal experts.

/// DIESEL ISSUE

//// IRREGULARITIES IN NO_x EMISSIONS

In September 2015, the U.S. Environmental Protection Agency (EPA) publicly announced in a “Notice of Violation” that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles with four-cylinder diesel engines of type EA 189 made by the Volkswagen Group. In this context, the Volkswagen Group announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around 11 million vehicles worldwide with type EA 189 diesel engines, including around 2.4 million Audi vehicles. In November 2015, the EPA announced in a “Notice of Violation” that irregularities had also been identified in the software installed in U.S. vehicles with type V6 3.0 TDI engines. The matter affected a total of around 113,000 vehicles of the Group brands VW, Audi and Porsche in the United States and Canada, where the regulations on NO_x limits are stricter than in other parts of the world.

In response, a large number of court and governmental proceedings were started in various countries. We have since succeeded in making substantial progress and ending a great number of these proceedings.

//// COMPREHENSIVE INVESTIGATIONS LAUNCHED BY VOLKSWAGEN AND AUDI

After the first “Notice of Violation” was issued, Volkswagen and Audi immediately initiated their own internal as well as external investigations; both have since been concluded for the most part.

While Volkswagen AG, Wolfsburg, holds internal development responsibility for the four-cylinder diesel engines within the Group, AUDI AG is responsible for the development of the six and eight-cylinder diesel engines, such as diesel engines of the types V6 and V8.

AUDI AG has concluded an agreement with Volkswagen AG on joint and several liability in the event that the U.S. authorities, U.S. courts and potential out-of-court settlements do not differentiate fully between the four-cylinder diesel engines for which Volkswagen AG is accountable and the V6 3.0 TDI engines that are the responsibility of AUDI AG. Against the background of this agreement, the costs from settlement agreements will be passed onto AUDI AG according to a causation-based key.

The members of the Board of Management of AUDI AG at that time have declared that prior to their notification by EPA in November 2015, they had no knowledge of the use of unlawful “defeat device software” under U.S. law in the V6 3.0 TDI engines.

Also, the publications released at the time of preparation of the annual and consolidated financial statements as well as the combined management report for the 2019 fiscal year, along with the continued investigations and interviews in connection with the diesel issue, did not provide the Board of Management with any reliable findings or assessments on the matter that would lead to a different evaluation of the associated risks.

Besides, there are no reliable findings or facts available to the incumbent Board of Management of AUDI AG suggesting that the annual and consolidated financial statements as well as the combined management report for the 2019 fiscal year and previous years were materially incorrect. However, if new findings should come to light that indicate that individual members of the Board of Management at that time were aware of the diesel issue earlier, this could potentially have an effect on the annual and consolidated financial statements as well as on the combined management report for the 2019 fiscal year and previous years.

Possible effects on the financial position, financial performance and net worth of AUDI AG in connection with the diesel issue may arise mainly in the legal areas presented below.

//// *PRODUCT-RELATED LAWSUITS WORLDWIDE*

In principle, it is possible that customers in the affected markets will file civil lawsuits or that importers and dealers will assert recourse claims against Volkswagen AG and other Volkswagen Group companies including AUDI AG. Besides individual lawsuits, various forms of collective actions (i.e. assertion of individual claims by plaintiffs acting jointly or as representatives of a class) are available in various jurisdictions. Furthermore, in a number of markets it is possible for consumer and/or environmental organizations to bring suit to enforce alleged rights to injunctive relief, declaratory judgment, or damages.

Customer class action lawsuits and actions brought by consumer and/or environmental organizations are currently pending against Volkswagen AG and other Volkswagen Group companies, including AUDI AG, in a number of countries. Alleged rights to damages and other relief are asserted in these actions. Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies, including AUDI AG, in various countries, most of which are seeking damages or rescission of the purchase contract.

//// *AGREEMENTS AND PROCEEDINGS IN THE USA/CANADA*

In the USA, Volkswagen AG and certain affiliates, including AUDI AG, reached settlement agreements with various government authorities and private plaintiffs, the latter represented by a Plaintiffs' Steering Committee in a multidistrict litigation in California. These agreements resolved certain civil claims as well as criminal charges under U.S. federal law and the laws of certain U.S. states in connection with the diesel issue. As part of the agreements entered into with the U.S. Department of Justice and the State of California (Plea Agreement and Third Partial Consent Decrees), a Compliance Monitor and Compliance Auditor was appointed for Volkswagen in 2017 for a term of three years.

Additionally, in the USA and Canada, the matters described in the EPA's "Notices of Violation" are the subject of various types of lawsuits and requests for information that have been filed in particular by customers, investors, salespersons and various government agencies in Canada and the United States, including the attorneys general of several U.S. states, against Volkswagen AG and other Volkswagen Group companies, including AUDI AG.

In the fiscal year, Volkswagen AG and certain affiliates, including AUDI AG, settled the consumer protection claims asserted by the Attorney General of the U.S. state of New Mexico, the last remaining state asserting consumer protection claims.

The attorneys general of five U.S. states (Illinois, Montana, New Hampshire, Ohio and Texas) and some municipalities have suits pending in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc., Herndon (Virginia), and certain affiliates, including AUDI AG, alleging violations of environmental laws. In the fiscal year, the environmental claims of two states – Alabama and Tennessee – were dismissed in full by trial or appellate courts as preempted by federal law with no possibility of further appeal, and the New Mexico Attorney General voluntarily dismissed its environmental claims. The claims asserted by Illinois, Hillsborough County (Florida) and Salt Lake County (Utah) have been dismissed in full, but those dismissals have been appealed. Certain of the claims asserted by Ohio, Texas and two Texas counties have also been dismissed, but those suits are currently proceeding as to other claims.

Furthermore, in December 2019, the Canadian federal environmental regulator filed charges against Volkswagen AG in respect of Volkswagen and Audi brand vehicles with 2.0 TDI and V6 3.0 TDI engines at the conclusion of its criminal enforcement-related investigation into the diesel emissions issue. Volkswagen AG cooperated with the investigation and agreed to a plea resolution addressing all of the charges. In January 2020, Volkswagen AG pleaded guilty to the charges and agreed to

pay a penalty of CAD 196.5 million, which was approved by the court. Following this approval, the Ontario provincial environmental regulator withdrew its action against Volkswagen AG charging a quasi-criminal enforcement-related offense with respect to certain Volkswagen and Audi vehicles with 2.0 TDI engine.
Additionally, a certified environmental class action is pending on behalf of residents in Quebec. This action was authorized on the sole issue of whether punitive damages could be recovered. The appeals filed by Volkswagen were denied. The case remains in the early stages.

//// CONSULTATION WITH GOVERNMENT AGENCIES ON TECHNICAL MEASURES WORLDWIDE

In agreement with the respective responsible authorities, the Volkswagen Group is making technical measures available worldwide for virtually all diesel vehicles with type EA 189 engines. Within its area of responsibility, the Federal Motor Transport Authority (Kraftfahrt-Bundesamt or KBA) ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO_2 emission figures, engine output, maximum torque and noise emissions.

Following the studies carried out by AUDI AG to check all relevant diesel concepts for possible irregularities and retrofit potentials, measures proposed by AUDI AG have been adopted and mandated by the KBA in various recall orders pertaining to vehicle models with V6 and V8 TDI engines.

Currently, AUDI AG assumes that the total cost, including the amount based on recalls, of the ongoing largely software-based retrofit program that began in July 2017 will be manageable and has recognized corresponding balance-sheet risk provisions. AUDI AG has in the meantime developed software updates for many of the affected powertrains and, after approval by the KBA, already installed these in the vehicles of a large number of affected customers. The approvals that are still outstanding are expected in the course of 2020.

As the type approval authority of proper jurisdiction, the KBA is moreover continuously testing Audi, VW, and Porsche brand vehicles for problematic functions. If certain functions are deemed impermissible by the KBA, the affected vehicles are recalled pursuant to a recall order or they are brought back into compliance by means of a voluntary service measure.

//// CRIMINAL AND ADMINISTRATIVE PROCEEDINGS IN GERMANY

In July 2019, the Munich II Office of the Public Prosecutor issued indictments, including one against the former Chairman of the Board of Management of AUDI AG, charging, among other things, fraud relating to 3.0 TDI engines in connection with the diesel issue.
Based on the information available at the present time, no change in the risk situation of AUDI AG results from these indictments.
AUDI AG appointed renowned law firms to clarify the matters underlying the public prosecutor's accusations. The Board of Management and Supervisory Board receive regular updates on the current status.

//// FINANCIAL IMPACT OF THE DIESEL ISSUE

In the 2019 fiscal year, the effects on earnings in connection with the diesel issue were of lesser importance overall when compared with the amounts reported as special items in the previous year.

//// OTHER MATERIAL LITIGATION

In April 2019, the European Commission issued a statement of objections to Volkswagen AG, AUDI AG and Dr. Ing. h.c. F. Porsche AG, Stuttgart, in connection with the Commission's antitrust investigation of the automobile industry. These objections state the European Commission's preliminary evaluation of the matter and afford the opportunity to comment. The subject matter of the proceedings is limited to the cooperation of German automobile manufacturers on technical questions in connection with the development and introduction of SCR systems and gasoline particulate filters for passenger cars that were sold in the European Economic Area. The manufacturers are not charged with any other misconduct such as price fixing or allocating markets and customers. After receiving access to the investigation files starting in July 2019, Volkswagen and Audi filed their reply to the European Commission's statement of objections in December 2019. We are not making any further statements in order to protect our company.

In the same matter, the Chinese Competition Authority has also issued information requests to Volkswagen AG, AUDI AG and Dr. Ing. h.c. F. Porsche AG, and commenced an administrative action.
In June 2019, the U.S. District Court for the Northern District of California dismissed two putative class action complaints brought by purchasers of German luxury vehicles alleging that, since the 1990s, several automobile manufacturers,

including Volkswagen AG and other Group companies conspired to unlawfully increase the prices of German luxury vehicles in violation of U.S. antitrust and consumer protection law. The court held that the plaintiffs have not stated a claim for relief because the allegations in the complaints do not plausibly support the alleged anticompetitive agreements. Plaintiffs filed amended complaints, which Volkswagen moved to dismiss. Plaintiffs in Canada filed claims with similar allegations on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen Group Canada, Inc., Ajax (Ontario), Audi Canada, Inc., Ajax (Ontario), and other Group companies. Neither provisions nor contingent liabilities were created because the early stage of proceedings makes an assessment currently impossible.

Volkswagen and Audi have been responding to information requests from the US Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) related to automatic transmissions in certain vehicles with gasoline engines. In August 2019, Volkswagen agreed with the EPA to forfeit approximately 220,000 Greenhouse Gas Emission Credits in response to the EPA's inquiry. Also in August 2019, Volkswagen and the Plaintiffs' Steering Committee announced the settlement of civil claims relating to approximately 98,000 Volkswagen, Audi, Porsche and Bentley vehicles, thereof 8,000 Audi vehicles. Volkswagen's testing of these vehicles in connection with the information requests resulted in a 1 mile per gallon change, when rounded according to EPA rules, in the fuel economy disclosed on the "Monroney label" required by US regulations. In October 2019, the Court granted preliminary approval of the settlement.

Where manageable and economically practicable, appropriate levels of insurance cover were taken out to hedge against these risks. Provisions deemed appropriate based on current knowledge were created or contingent liabilities reflecting probability of occurrence were disclosed for identifiable and measurable risks. Because some risks cannot be assessed or only assessed to a limited degree, losses arising that are not covered by the insured or reserved amounts cannot be ruled out completely. This applies in particular to the assessment of legal risks arising from the diesel issue.

// *FINANCIAL RISKS*

As a globally active company, the Audi Group is exposed to currency risks. Exchange rate fluctuations can, for example, influence payment streams and assets of the Audi Group. These fluctuations may be caused by economic or political developments, such as the uncertain arrangements surrounding the United Kingdom's exit from the EU or the current prevailing trade disputes. Changes in the sales volume with the result that there is an excess or shortfall in hedging of currency risks may equally drive such developments. These risks are minimized by natural hedging and the use of original and derivative financial instruments. Natural hedging is achieved, for example, through local production in important sales regions and through the local sourcing of components. We reduce the residual exchange rate risk by means of foreign currency hedging transactions with matching currencies and maturities, in the form of forward transactions and options contracts. The goal of this cover is to hedge planned payment streams particularly from investment, production and sales planning. This approach then also increases short, medium and long-term planning certainty. Methodologically, simulations of multiple stress scenarios are used as the basis for currency risk management. Risks are predominantly connected with the following currencies: U.S. dollar, Chinese renminbi, pound sterling and Korean won. The risk is unchanged compared with the previous year.

Alongside exchange rate movements, the development in interest rates, commodity prices as well as stock and bond markets fundamentally represents a financial risk for the Audi Group.

In organizational terms, the management of financial and liquidity risks is the responsibility of the Treasury area, which uses original and derivative financial instruments to minimize these risks. An established regular process within the Audi Group supports the management of these risks. The current risk situation and the related hedging strategies, for example, are agreed regularly with the Board Member for Finance and reported to the full Board of Management. Operational implementation is the responsibility of Volkswagen Group Treasury. The derivatives used, provided the conditions are met, are fundamentally also reflected in the accounts as hedging relationships. The Audi Group additionally protects itself from commodity price developments by concluding long-term contracts. The goal is to ensure price stability in product costing. We concluded similar transactions to secure and optimize our allocation of CO_2 emission certificates.

The most important financial goal is to ensure the solvency and financing of the Audi Group at all times. At the same time, we seek to achieve a suitable return on the investment of surplus liquidity. Particularly if there are substantial deviations from plan – for example in the event of short-term negative economic developments – there could be liquidity risks in the form of higher capital costs or increased difficulty in raising financing for capital investment. This permanent risk is countered through a multi-stage liquidity planning process, the involvement of decision-making committees and daily cash disposition. Furthermore, the material companies of the Audi Group are included in the cash pooling of the Volkswagen Group. This arrangement makes intra-Group and external transactions efficient and also reduces transaction costs.

Counterparty risks also fundamentally occur if a contracting partner is no longer able to meet its contractual payment or delivery obligation. This can have considerable financial consequences. These credit risks are managed centrally by Volkswagen Group Treasury. A diversification strategy is applied and contracting partners are evaluated using creditworthiness criteria to counter the risk of losses or default.

Through cooperation with Volkswagen Financial Services AG, Braunschweig, the Audi Group is able to offer its customers borrowing and leasing arrangements. In connection with the refinancing of leasing agreements, deterioration in the cost of capital could fundamentally lead to financial or volume risks for the Audi Group.

*Read more about **the hedging policy** and **risk management** in the area of financial risks in the notes to the consolidated financial statements under **note 37**.*

The automotive industry's transformation is currently creating increased uncertainty on the capital market regarding the future value of the Company. The risk exists that analysts and investors may place Audi and the Volkswagen Group in a much higher risk category, in the absence of established measurement models. This could lead to capital being transferred to other sectors, resulting potentially in financing bottlenecks, higher capital costs or a negative communication impact. This unchanged risk is addressed by using established capital market communications, including via new media formats, holding analyst days and sensitizing management to capital market topics.

AUDI AG and its subsidiaries operate worldwide and are regularly inspected by local tax authorities. Changes in tax legislation, legal judgments and their interpretation by the tax authorities in the respective countries may result in tax payments that differ from the estimates made in the financial statements. From a tax point of view there are assessment uncertainties in the Audi Group regarding the timing of the deductibility and measurement of balance sheet items, for example provisions and amounts capitalized, but also regarding off-balance-sheet additions, for example in the area of transfer prices for tax purposes. Potentially falling back on comparable market prices or similar accounting matters carries multiple tax-related uncertainties. In this case a best possible estimate of the circumstances at the reporting date is made. Audi implements organizational measures to monitor the development in tax risks and their impact on the consolidated financial statements. Other liabilities in respect of Volkswagen AG were recognized for tax liabilities for possible future tax payments as well as for incidental tax expenses incurred in that connection.

// *FINANCIAL OPPORTUNITIES*

Rising growth rates for economic output in export markets that are of importance to us may prompt appreciation of a country's national currency and have a correspondingly beneficial impact on the Audi Group. Political changes can also play a decisive role in such developments. In addition, rising interest rates may have a positive effect on returns from the investment of surplus liquidity. Our targeted working capital management can equally have positive financial consequences. An advantageous development in commodity prices from our perspective represents a further financial opportunity for us. It is also possible that our strategic objective combined with a convincing equity story will be received positively by the public, with a beneficial effect on our corporate value. Furthermore, there are opportunities associated with the possible disposal of participations with positive effects on our financial key figures.

// IT AND CYBER SECURITY RISKS

The growing digitalization of vehicles and working methods is producing new challenges in IT and cyber security. Risks also exist in relation to the implementation of future regulations, such as those of the UNECE (United Nations Economic Commission for Europe). The new requirements include the introduction of a general Cyber Security Management System and also a comprehensive management system for software updates in the vehicle. The corresponding certifications and type approval certificates will need to be verified for the future approval of vehicles or introduction of software changes. The intention is to protect and validate the increasingly connected and autonomous functions in vehicles more effectively against cyber attacks, and also to make software updates resistant to manipulation and abuse. Because of the high complexity, there is the risk that the new requirements will not be implemented by the planned introduction date, which could lead to delays in approval and consequently put the volume at risk. By way of a countermeasure, the certification requirements are currently defined on a cross-division basis. A Company-wide project team under the guidance of the Board of Management is already working on implementing the requirements on a process, organization and content-related level. The risk is consequently slightly lower than for the previous year.

The growing professionalization of white-collar crime poses an increased threat to IT security for the businesses affected, for example. It may take the form of unauthorized access to and manipulation of data as well as deliberate sabotage. There are also threats in the form of data theft and systematic espionage of sensitive information. This risk is countered as effectively as possible by means of comprehensive IT security regulations and ongoing refinement of the IT security organization as well as by specifying Group-wide security standards and regular simulations of hacker attacks. We run risk analyses, security audits and optimization projects to sustainably ensure the continuity and security of internal processes. In addition, new IT systems are subjected to increased stress testing both before their adoption and also while in use. This risk has decreased slightly compared with the previous year.

// IT AND CYBER SECURITY OPPORTUNITIES

Further digitalization of our internal processes along the entire value chain as well as the standardization of our IT systems are being advanced intensively. For instance, we are targeting further efficiency improvements that will therefore save resources.

The use of data analytics offers us opportunities to align our products and new business models even more closely with what customers want, and develop them in a way that adds value and boosts efficiency. Data protection enjoys top priority in that regard. We are very aware of the sensitivity of the debate surrounding data protection in connection with vehicle data, and are continuously using new technical innovations to develop appropriate solutions that strictly adhere to the principles of data protection law, in particular with regard to transparency, customer self-determination and data security. This subject area also offers us extensive opportunities and potential for our Audi Transformation Plan (ATP).

/ MOTORCYCLES SEGMENT

As well as the most significant and latent risks and opportunities for the Audi Group, we are exposed to specific risks and opportunities from the Motorcycles segment. The significance of these risks is also reflected in the order in which they are presented here.

// RISKS FOR MOTORCYCLES SEGMENT

Both the main production plant and the main warehouse of Ducati are situated in Bologna (Italy). It is therefore indispensable to keep these functioning and operational at all times in order to maintain business operations. Their failure or operational restriction – for example in the event of a fire or earthquake – would interrupt production and therefore have a major impact on our ability to deliver products. As well as the image loss, there would above all be financial consequences. Fire prevention measures and safety plans as well as insurance cover constitute risk-reducing measures and are regularly reviewed and developed. This risk has not increased compared with the previous year.

Against a backdrop of increasing digitalization and the growing importance of IT landscapes, there is the risk of unwanted access to Ducati’s local servers or even a collapse of the entire IT infrastructure. This could lead to theft or manipulation of sensitive company data or the temporary failure of operational processes at Ducati. These risks are countered using a variety of safeguards, redundant system environments and regularly conducted emergency simulations.

Growing and changing regulatory demands with regard to product characteristics can lead to delays and inadequate processes in product development. Comprehensive revised processes that reflect the Golden Rules of the Volkswagen

Group along with regular examinations as part of quality management work address this risk.

There is in addition the risk of deviating product characteristics in the production process. This risk is controlled by means of comprehensive inspections and approval steps, process audits at suppliers as well as defined quality assurance measures.

// *OPPORTUNITIES FOR MOTORCYCLES SEGMENT*

A positive development in the worldwide economic situation and consequently a rise in demand for motorcycles in the premium segment can fundamentally create additional sales opportunities for Ducati. The ongoing rejuvenation of Ducati's product range and the development of new customer segments as well as new markets could generate further market opportunities for the Company.

The expertise and know-how of the Audi Group can help with the quick and efficient implementation of the Ducati brand's internationalization measures. In addition, Ducati can benefit from synergy potential in the Audi Group's development, operating and purchasing processes.

/ *OVERALL ASSESSMENT OF THE RISKS AND OPPORTUNITIES SITUATION OF THE AUDI GROUP*

The overall risks and opportunities situation for the Audi Group arises from the individual risks and opportunities presented above. The most significant risks are currently in connection with deviations from planned project goals during product development, the future mandatory management systems for cyber security and software updates, as well as in the area of foreign currency movements. These risks could have an adverse impact particularly on the planned volume development, as well as on our financial key figures.

There are major opportunities from Group synergies in the area of vehicle architecture development as a result of being part of the Volkswagen Group, a possible easing of the trade disputes and the expansion of our market share based on our fresh, attractive product portfolio.

The current risk situation has already been built into the forecast for the 2020 fiscal year. The residual overall risk within the Audi Group that is not reflected in the forecast has reduced slightly compared with the previous year. The number and evaluation of the reportable risks have fallen. On the basis of the information known us at present, there continue to be no risks that could pose a threat to the Audi Group and material Group companies as going concerns.

DISCLAIMER

This report contains forward-looking statements on the future business development of the Audi Group. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions, and in particular for the automotive industry, which we have made on the basis of the information available to us and which we consider to be realistic at the time of going to press. The estimates given entail a degree of risk, and actual developments may differ from those forecast. Any changes in significant parameters relating to our key sales markets or any significant shifts in exchange rates or commodity prices relevant to the Audi Group will have a corresponding effect on the development of our business. In addition, there may be departures from our expected business development if the assessments of the risks and opportunities presented in the 2019 Annual Report develop in a way other than we are currently expecting, or if additional risks and opportunities or other factors emerge that affect the development of our business.

The figures in brackets represent those for the corresponding prior-year period. All figures are rounded off, which may lead to minor deviations when added up.

REPORT ON POST-BALANCE SHEET DATE EVENTS

In January 2020, Audi Electronics Venture GmbH, Gaimersheim, classified as available for sale as of December 31, 2019, was sold to Porsche Siebte Vermögensverwaltung GmbH, Wolfsburg, for a selling price of EUR 650 million. Initial estimates indicate that the transaction will have an effect on the financial result of around EUR 0.6 billion.

The consequences of the spreading of the coronavirus may impact negatively on deliveries as well as on net worth, financial position and financial performance in the 2020 fiscal year. Further details can be found in the sections “Report on Expected Developments” and “Report on Risks and Opportunities.”

Apart from this, there were no further reportable events of material significance after December 31, 2019.

Consolidated Financial Statements

of the Audi Group for the fiscal year from January 1 to December 31, 2019

INCOME STATEMENT OF THE AUDI GROUP

EUR million	Notes	2019	2018
Revenue	1	55,680	59,248
Cost of goods sold	2	–47,597	–50,117
Gross profit		**8,082**	**9,131**
Distribution expenses	3	–3,418	–4,155
Administrative expenses	4	–687	–696
Other operating income	5	2,428	1,862
Other operating expenses	6	–1,896	–2,613
Operating profit		**4,509**	**3,529**
Result from investments accounted for using the equity method	7	274	261
Interest income	8	243	233
Interest expenses	8	–241	–115
Other financial result	9	436	452
Financial result		**713**	**831**
Profit before tax		**5,223**	**4,361**
Income tax expense	10	–1,279	–898
Profit after tax		**3,943**	**3,463**
of which profit share of non-controlling interests		*93*	*82*
of which profit share of AUDI AG shareholders		*3,850*	*3,382*
Appropriation of profit share due to AUDI AG shareholders			
Profit transfer to Volkswagen AG	11	–3,752	–1,096
Transfer to retained earnings		98	2,286

EUR	Notes	2019	2018
Earnings per share	12	89.53	78.64
Diluted earnings per share	12	89.53	78.64

STATEMENT OF COMPREHENSIVE INCOME OF THE AUDI GROUP

EUR million	2019	2018
Profit after tax	**3,943**	**3,463**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income before tax	–1,461	31
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	579	–17
Pension plan remeasurements recognized in other comprehensive income after tax	–882	14
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss after tax	–1	0
Items that will not be reclassified to profit/loss after tax	**–883**	**14**
Currency translation differences		
Gains/losses from currency translation recognized in other comprehensive income	58	75
Currency translation differences transferred to profit or loss	–30	–
Currency translation differences before tax	28	75
Deferred taxes on currency translation differences	–	–
Currency translation differences after tax	28	75
Hedging transactions		
Fair value changes of cash flow hedges recognized in other comprehensive income	–539	–482
Fair value changes of cash flow hedges transferred to profit or loss	–215	–481
Cash flow hedges before tax	–754	–963
Deferred taxes on cash flow hedges	225	289
Cash flow hedges after tax	–529	–674
Costs of hedging relationships recognized in other comprehensive income	–520	–227
Costs of hedging relationships transferred to profit or loss	353	–96
Costs of hedging relationships before tax	–168	–323
Deferred taxes on costs of hedging relationships	50	96
Costs of hedging relationships after tax	–118	–227
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss after tax	7	–41
Items that may be reclassified to profit/loss after tax	**–611**	**–866**
Other comprehensive income before tax	–2,348	–1,221
Deferred taxes relating to other comprehensive income	854	368
Other comprehensive income after tax [1)]	**–1,494**	**–852**
Total comprehensive income	**2,449**	**2,611**
of which profit share of AUDI AG shareholders	*2,338*	*2,512*
of which profit share of non-controlling interests	*112*	*99*

1) A share of EUR 18 (17) million of other profit after tax from currency translation differences with no effect on profit or loss is attributable to non-controlling interests.

BALANCE SHEET OF THE AUDI GROUP

ASSETS *in EUR million*	Notes	Dec. 31, 2019	Dec. 31, 2018
Intangible assets	14	7,723	7,585
Property, plant and equipment	15, 38	14,618	14,293
Lease assets	16, 38	8	11
Investment property	16, 38	314	332
Investments accounted for using the equity method	17	2,681	1,627
Other participations		343	357
Deferred tax assets	18	2,957	2,319
Other financial assets	19	5,427	5,742
Other receivables	20	141	128
Non-current assets		**34,211**	**32,393**
Inventories	21	7,819	9,406
Trade receivables	22	5,011	5,800
Effective income tax assets	23	36	51
Other financial assets	19	1,273	1,999
Other receivables	20	960	914
Securities	24	5,592	5,726
Cash funds	24	11,731	9,309
Current assets		**32,422**	**33,205**
Assets classified as held for sale	**25**	**246**	**–**
Total assets		**66,878**	**65,598**

EQUITY AND LIABILITIES *in EUR million*	Notes	Dec. 31, 2019	Dec. 31, 2018
Subscribed capital	26	110	110
Capital reserve	26	12,175	12,175
Retained earnings	26	15,435	16,219
Other reserves	26	– 61	569
AUDI AG shareholders' interest		27,658	29,073
Non-controlling interests	26	737	625
Equity		**28,395**	**29,698**
Financial liabilities	27	810	319
Other financial liabilities	29	563	463
Other liabilities	30	1,092	1,224
Provisions for pensions	31	6,720	5,194
Other provisions	33	6,295	6,288
Effective income tax obligations	32	528	792
Deferred tax liabilities	28	204	270
Non-current liabilities		16,212	14,549
Financial liabilities	27	238	108
Trade payables	34	7,106	8,565
Other financial liabilities	29	6,789	4,067
Other liabilities	30	2,671	2,634
Other provisions	33	4,560	5,593
Effective income tax obligations	32	854	383
Current liabilities		22,219	21,351
Liabilities		**38,431**	**35,900**
Liabilities classified as held for sale	**25**	**52**	**–**
Total equity and liabilities		**66,878**	**65,598**

CASH FLOW STATEMENT OF THE AUDI GROUP

EUR million	2019	2018
Profit before profit transfer and income taxes	5,223	4,361
Income tax payments	– 1,014	– 978
Amortization of and impairment losses (reversals) on capitalized development costs	1,087	856
Depreciation and amortization of and impairment losses (reversals) on property, plant and equipment, lease assets, investment property and other intangible assets	2,936	2,931
Depreciation of and impairment losses (reversals) on financial investments	– 13	62
Result from the disposal of assets	– 3	– 163
Result from investments accounted for using the equity method	– 64	– 97
Change in inventories	645	– 1,416
Change in receivables	155	– 268
Change in liabilities	– 889	1,618
Change in provisions	– 190	75
Change in lease assets	0	– 7
Other non-cash income and expenses	– 394	40
Cash flow from operating activities	**7,479**	**7,013**
Additions to capitalized development costs	– 1,146	– 1,593
Investments in property, plant and equipment, investment property and other intangible assets	– 2,731	– 3,493
Acquisition of subsidiaries and changes in capital [1]	6	– 50
Acquisition of investments in associates and other participations and changes in capital	– 87	– 398
Sale of subsidiaries, investments in associates, other participations and changes in capital [1]	– 416	585
Other cash changes	54	79
Change in investments in securities	215	184
Change in fixed deposits and loans extended	986	– 2,481
Cash flow from investing activities	**–3,118**	**–7,169**
Capital contributions	–	43
Transfer of profit	– 1,096	– 2,406
Change in financial liabilities	10	– 192
Lease payments made	– 114	– 10
Cash flow from financing activities	**–1,200**	**–2,564**
Change in cash and cash equivalents due to changes in exchange rates	36	16
Change in cash and cash equivalents	**3,196**	**–2,705**
Cash and cash equivalents at beginning of period	8,550	11,255
Cash and cash equivalents at end of period	**11,747**	**8,550**

1) This also includes the cash inflows and cash outflows from initial consolidations and deconsolidations.

EUR million	Dec. 31, 2019	Dec. 31, 2018
Cash funds	11,747	8,550
Cash funds classified as held for sale	– 115	–
Fixed deposits, securities and loans extended	11,170	12,319
Gross liquidity	**22,802**	**20,869**
Financial liabilities	– 1,048	– 427
Net liquidity	**21,754**	**20,442**

The cash flow statement is explained in note 39 in the notes to the consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY OF THE AUDI GROUP

EUR million	Subscribed capital	Capital reserve	Retained earnings
			Statutory reserve and other retained earnings
Unadjusted position as of Jan. 1, 2018	110	12,175	14,015
Changes in accounting policy to reflect IFRS 9 and IFRS 15	–	–	– 96
Position as of Jan. 1, 2018	110	12,175	13,919
Profit after tax	–	–	3,382
Other comprehensive income after tax	–	–	14
Total comprehensive income	**–**	**–**	**3,395**
Capital increase	–	–	–
Profit transfer to Volkswagen AG	–	–	– 1,096
Miscellaneous changes	–	–	–
Position as of Dec. 31, 2018	**110**	**12,175**	**16,219**
Position as of Jan.1, 2019	110	12,175	16,219
Profit after tax	–	–	3,850
Other comprehensive income after tax	–	–	– 882
Total comprehensive income	**–**	**–**	**2,968**
Capital increase	–	–	–
Profit transfer to Volkswagen AG	–	–	– 3,752
Miscellaneous changes	–	–	0
Position as of Dec. 31, 2019	**110**	**12,175**	**15,435**

Equity is explained in note 26 in the notes to the consolidated financial statements.

Other reserves					Equity		
Reserve for currency translation differences	Hedging transactions		Equity and debt instruments	Investments accounted for using the equity method	AUDI AG shareholders' interest	Non-controlling interests	Total
	Reserve for cash flow hedges	Costs of hedging relationships					
–3	1,329	–	–23	81	27,685	487	28,171
–	30	15	23	–	–28	–3	–31
–3	1,359	15	–	81	27,657	483	28,140
–	–	–	–	–	3,382	82	3,463
58	–674	–227	–	–41	–870	17	–852
58	**–674**	**–227**	**–**	**–41**	**2,512**	**99**	**2,611**
–	–	–	–	–	–	43	43
–	–	–	–	–	–1,096	–	–1,096
–	–	–	–	–	–	–	–
55	**685**	**–211**	**–**	**41**	**29,073**	**625**	**29,698**
55	685	–211	–	41	29,073	625	29,698
–	–	–	–	–	3,850	93	3,943
10	–529	–118	–	6	–1,512	18	–1,494
10	**–529**	**–118**	**–**	**6**	**2,338**	**112**	**2,449**
–	–	–	–	–	–	–	–
–	–	–	–	–	–3,752	–	–3,752
0	–	–	–	–	0	–	0
65	**156**	**–329**	**–**	**47**	**27,658**	**737**	**28,395**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DEVELOPMENT OF FIXED ASSETS IN THE 2019 FISCAL YEAR

EUR million	Gross carrying amounts									
	Costs	Adjust-ments to reflect IFRS 16	Changes in scope of consolidated companies	Currency changes	Addi-tions	Changes from investments accounted for using the equity method	Transfers	Dis-posals	Assets classified as held for sale	Costs
	Jan. 1, 2019									Dec. 31, 2019
Concessions, industrial property rights and similar rights and assets as well as licenses and customer bases	1,507	–	– 27	0	226	–	11	3	4	1,709
Brand names	459	–	–	–	–	–	–	–	–	459
Goodwill	378	–	–	–	–	–	–	–	–	378
Capitalized development costs, products currently under development	1,325	–	–	–	589	–	– 1,091	–	–	823
Capitalized development costs, products currently in use	7,812	–	–	–	557	–	1,091	58	–	9,401
Payments on account for intangible assets	10	–	– 1	0	2	–	– 7	–	–	5
Intangible assets	**11,490**	**–**	**–28**	**0**	**1,374**	**–**	**4**	**61**	**4**	**12,775**
Land, land rights and buildings, including buildings on third-party land	8,737	519	– 104	20	319	–	230	66	14	9,641
Technical equipment and machinery	8,611	2	0	11	365	–	132	168	0	8,952
Other plant, operating and office equipment	20,857	11	– 85	20	880	–	1,180	215	20	22,628
Payments on account and assets under construction	1,964	–	4	0	1,170	–	– 1,546	15	0	1,577
Property, plant and equipment	**40,168**	**532**	**–185**	**51**	**2,734**	**–**	**–4**	**464**	**34**	**42,798**
Lease assets	**14**	**–**	**–**	**–**	**1**	**–**	**–**	**1**	**–**	**14**
Investment property	**419**	**0**	**–**	**2**	**4**	**–**	**0**	**12**	**–**	**412**
Investments accounted for using the equity method	**1,627**	**–**	**915**	**9**	**69**	**61**	**–**	**–**	**–**	**2,681**
Other participations	**451**	**–**	**–1**	**0**	**42**	**–**	**–**	**3**	**65**	**424**
Fixed assets	**54,168**	**533**	**701**	**63**	**4,223**	**61**	**0**	**541**	**104**	**59,104**

	Adjustments										Carrying amounts	
Accumulated depreciation and amortization	Adjust-ments to reflect IFRS 16	Changes in scope of consoli-dated companies	Cur-rency changes	Additions to cumu-lative amorti-zation	Impair-ment losses	Transfers	Dis-posals	Reversal of impair-ment losses	Assets classified as held for sale	Accumulated depreciation and amortization		
Jan. 1, 2019										Dec. 31, 2019	Dec. 31, 2019	Dec. 31, 2018
1,120	–	– 18	0	149	–	0	3	12	– 1	1,235	474	386
51	–	–	–	2	–	–	–	–	–	53	406	408
–	–	–	–	–	–	–	–	–	–	–	378	378
–	–	–	–	–	7	–	–	–	–	7	816	1,325
2,734	–	–	–	1,128	8	–	58	55	–	3,756	5,645	5,077
–	–	–	–	–	–	–	–	–	–	–	5	10
3,906	**–**	**–18**	**0**	**1,279**	**15**	**0**	**61**	**67**	**–1**	**5,052**	**7,723**	**7,585**
3,609	0	– 37	2	366	2	0	16	–	0	3,926	5,715	5,128
6,086	–	0	4	627	1	0	156	0	0	6,560	2,392	2,525
16,083	–	– 75	9	1,946	4	55	194	137	– 12	17,680	4,948	4,774
96	–	–	0	–	13	– 55	–	40	–	14	1,563	1,867
25,874	**0**	**–112**	**15**	**2,938**	**19**	**0**	**366**	**177**	**–12**	**28,180**	**14,618**	**14,293**
3	**–**	**–**	**–**	**3**	**–**	**–**	**0**	**–**	**–**	**6**	**8**	**11**
87	**0**	**–**	**1**	**14**	**–**	**–**	**3**	**–**	**–**	**99**	**314**	**332**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,681**	**1,627**
94	**–**	**–**	**–**	**–**	**2**	**–**	**–**	**15**	**–**	**81**	**343**	**357**
29,964	**–**	**–131**	**16**	**4,234**	**36**	**–**	**430**	**259**	**–13**	**33,417**	**25,686**	**24,204**

DEVELOPMENT OF FIXED ASSETS IN THE 2018 FISCAL YEAR

EUR million	Gross carrying amounts								
	Costs	Adjust-ments to reflect IFRS 9	Changes in scope of consolidated companies	Currency changes	Addi-tions	Changes from investments accounted for using the equity method	Transfers	Disposals	Costs
	Jan. 1, 2018								Dec. 31, 2018
Concessions, industrial property rights and similar rights and assets as well as licenses and customer bases	1,305	–	–	0	207	–	13	19	1,507
Brand names	459	–	–	–	–	–	–	–	459
Goodwill	378	–	–	–	–	–	–	–	378
Capitalized development costs, products currently under development	2,057	–	–	–	927	–	–1,660	–	1,325
Capitalized development costs, products currently in use	6,627	–	–	–	666	–	1,660	1,141	7,812
Payments on account for intangible assets	9	–	–	0	9	–	–9	0	10
Intangible assets	**10,836**	**–**	**–**	**0**	**1,810**	**–**	**5**	**1,160**	**11,490**
Land, land rights and buildings, including buildings on third-party land	8,307	–	128	31	127	–	177	33	8,737
Technical equipment and machinery	8,206	–	–	15	125	–	530	264	8,611
Other plant, operating and office equipment	18,650	–	0	38	1,490	–	1,108	429	20,857
Payments on account and assets under construction	2,269	–	3	0	1,536	–	–1,820	24	1,964
Property, plant and equipment	**37,432**	**–**	**131**	**83**	**3,277**	**–**	**–4**	**751**	**40,168**
Lease assets	**7**	**–**	**–**	**–**	**7**	**–**	**–**	**0**	**14**
Investment property	**425**	**–**	**–**	**5**	**0**	**–**	**0**	**11**	**419**
Investments accounted for using the equity method	**1,224**	**3**	**–**	**–6**	**390**	**99**	**–**	**83**	**1,627**
Other participations	**392**	**–**	**–1**	**0**	**67**	**–**	**–**	**7**	**451**
Fixed assets	**50,316**	**3**	**130**	**81**	**5,552**	**99**	**0**	**2,012**	**54,168**

Adjustments									Carrying amounts	
Cumulative depreciation and amortization	Changes in scope of consoli-dated companies	Currency changes	Additions to cumulative amortization	Impair-ment losses	Transfers	Disposals	Reversal of impairment losses	Cumulative depreciation and amortization		
Jan. 1, 2018								Dec. 31, 2018	Dec. 31, 2018	Dec. 31, 2017
983	–	0	140	16	0	18	–	1,120	386	322
49	–	–	2	–	–	–	–	51	408	410
–	–	–	–	–	–	–	–	–	378	378
14	–	–	–	–	–14	–	–	–	1,325	2,043
3,005	–	–	856	–	14	1,141	–	2,734	5,077	3,623
–	–	–	–	–	–	–	–	–	10	9
4,051	**–**	**0**	**998**	**16**	**0**	**1,159**	**–**	**3,906**	**7,585**	**6,785**
3,361	3	4	265	–	0	24	–	3,609	5,128	4,946
5,687	–	0	607	7	43	253	4	6,086	2,525	2,519
14,723	0	14	1,681	106	–43	397	–	16,083	4,774	3,927
1	–	0	–	95	–	–	–	96	1,867	2,268
23,771	**3**	**17**	**2,553**	**208**	**0**	**674**	**4**	**25,874**	**14,293**	**13,660**
1	**–**	**–**	**2**	**–**	**–**	**0**	**–**	**3**	**11**	**6**
79	**–**	**1**	**14**	**–**	**–**	**7**	**–**	**87**	**332**	**346**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,627**	**1,224**
32	**–**	**–**	**–**	**62**	**–**	**–**	**–**	**94**	**357**	**359**
27,935	**3**	**18**	**3,567**	**286**	**–**	**1,841**	**4**	**29,964**	**24,204**	**22,381**

GENERAL INFORMATION

AUDI AG has the legal form of a German stock corporation (Aktiengesellschaft). Its registered office is at Auto-Union-Straße 1, Ingolstadt, and the Company is recorded in the Commercial Register of Ingolstadt under HR B 1.

Around 99.64 percent of the subscribed capital of AUDI AG is held by Volkswagen AG, Wolfsburg, with which a control and profit transfer agreement exists. The consolidated financial statements of AUDI AG are included in the consolidated financial statements of Volkswagen AG, which are held on file at the Local Court of Braunschweig. The purpose of the Company is the development, production and sale of motor vehicles, other vehicles and engines of all kinds, together with their accessories, as well as machinery, tools and other technical articles.

/ *ACCOUNTING PRINCIPLES*

AUDI AG prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC). All pronouncements of the International Accounting Standards Board (IASB) whose application is mandatory in the European Union (EU) have been observed. The prior-year figures have been calculated according to the same principles.

The income statement is prepared in accordance with the cost of sales method.

AUDI AG prepares its consolidated financial statements in euros (EUR). All figures have been rounded in accordance with standard commercial practice, with the result that minor discrepancies may occur when adding these amounts.

The consolidated financial statements provide a true and fair view of the net worth, financial position and financial performance of the Audi Group.

The requirements of Section 315e of the German Commercial Code (HGB) regarding the preparation of consolidated financial statements in accordance with IFRS, as endorsed by the EU, are met.

All requirements that must be applied under German commercial law are additionally observed in preparing the consolidated financial statements. Moreover, the requirements of the German Corporate Governance Code have been adhered to.

The Board of Management prepared the consolidated financial statements on February 18, 2020. This date marks the end of the adjusting events period.

// *EFFECTS OF NEW OR AMENDED STANDARDS*

The Audi Group has implemented all of the accounting standards whose application became mandatory with effect from the 2019 fiscal year. Various rules came into effect on January 1, 2019, as part of the 2017 improvements to International Financial Reporting Standards (Annual Improvement Project 2017). These include clarifications to IAS 12, IAS 23, IFRS 3 and IFRS 11. In IAS 12 (Income Taxes), this comprises clarification that the way in which the income tax consequences of dividend payments are recognized is based on the recognition of the transactions that led to the dividends. In addition, explanations have been added to IAS 23 (Borrowing Costs) to clarify the calculation of the weighted borrowing costs. Furthermore, the additional explanations in IFRS 3 (Business Combinations) and IFRS 11 (Joint Arrangements) clarify that when an entity obtains control over an entity that was formerly accounted for as an investment in a joint operation, the requirements for business combinations achieved in stages are to be applied.

The amendments to IAS 28 (Investments in Associates and Joint Ventures) clarify, with effect from January 1, 2019, that the impairment rules in IFRS 9 (Financial Instruments) apply to long-term financial instruments that are a net investment in an associate or joint venture that is not recognized using the equity method.

Furthermore, clarifications to IFRS 9 (Financial Instruments) took effect as of January 1, 2019. These specify that certain financial instruments that contain a repayment option with negative features can be measured at amortized cost or at fair value through other comprehensive income.

In addition, IFRIC 23 (Uncertainty over Income Tax Treatments) applies. This specifies that tax risks must be taken into account if it is probable that the taxation authorities will not accept the interpretation of circumstances in income tax filings.

In addition, IAS 19 (Employee Benefits) set out in detail that the actuarial assumptions must be recalculated at the date of a plan amendment, curtailment or settlement.

The Audi Group has opted for early application of the amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (published on September 26, 2019). Application of the amendments would only have been mandatory from January 1, 2020. In the 2019 fiscal year, there were no relevant hedging relationships in the Audi Group, either in existence at the start of the reporting year or designated during the year.

None of the changes described above, or any of the other changes to the IFRS, with the exception of IFRS 16 (Leases), have a material impact on the net worth, financial position, financial performance or on the cash flow of the Audi Group.

/// *IFRS 16 – LEASES*

IFRS 16 changes the rules for the accounting of leases and replaces the previous standard IAS 17 and the associated interpretations.

The main aim of IFRS 16 is for all leases to be recognized on the balance sheet. This means that the previous classification into finance and operating leases no longer applies for lessees. Instead, a right-of-use asset and a lease liability must in general be recognized on the balance sheet for leases. In the Audi Group, the lease liability is measured on the basis of the outstanding lease payments, discounted using the incremental borrowing rate, while the right-of-use asset is always measured at the amount of the lease liability plus the initial direct costs. During the lease term, the right-of-use asset must be depreciated and the lease liability adjusted using the effective interest method and taking the lease payments made into account. IFRS 16 contains practical expedients for short-term and low-value leases. The Audi Group makes use of these and therefore does not recognize a right-of-use asset or a liability for such leases. The relevant lease payments are recognized as expense in the income statement as in the past.

As of the date of first-time application, leases whose term ends before January 1, 2020, are classified as short-term leases irrespective of the start date of the lease. In addition, leases already in effect at the date of first-time application were not reassessed to identify whether or not they meet the criteria for leases under IFRS 16. Instead, existing contracts that were already classified as leases under IAS 17 or IFRIC 4 are still classified as leases. Existing contracts that were not classified as leases under IAS 17 or IFRIC 4 are still not treated as leases.

The lessor accounting model under IFRS 16 mainly corresponds to the former requirements of IAS 17. Lessors must still classify each of their leases as finance leases or operating leases based on the distribution of the risks and rewards incidental to the ownership of an underlying asset.

As of January 1, 2019, for the first time, the Audi Group has recognized leases according to the rules of IFRS 16 using the modified retrospective method (within the meaning of IFRS 16.C5(b)). The figures for prior-year periods have not been adjusted. Using this method, the lease liability must be recognized at the present value of the remaining lease payments as of the transition date. The present value is determined using the incremental borrowing rate as of January 1, 2019. The weighted average interest rate in the Audi Group was 3.2 percent.

To simplify, the right-of-use assets are recognized in the amount of the corresponding lease liability – adjusted for any prepaid or accrued lease payments.

Applying the permitted exemption, the right-of-use asset is adjusted by the amounts recognized as provisions for onerous operating leases on the balance sheet as of December 31, 2018. The right-of-use assets were not tested for impairment in this context at the date of first-time application.

The right-of-use assets recognized on the balance sheet are reported in the items where the assets underlying the lease would have been recognized if they had been the economic property of the Audi Group. As of the reporting date, right-of-use assets are therefore recognized in non-current assets, in the items property, plant and equipment, and investment property.

The effects of right-of-use assets and lease liabilities resulting from the first-time application of IFRS 16 as of January 1, 2019, were as follows:

- Right-of-use assets with a net carrying amount of EUR 796 million were recognized (of which EUR 585 million in property, plant and equipment and EUR 211 million in investment property). Capitalized prepayments, accrued liabilities and provisions for onerous operating leases were offset against the right-of-use assets. The right-of-use assets recognized included an amount of EUR 264 million that had already been recognized under finance leases as of December 31, 2018.
- Lease liabilities in the amount of EUR 832 million were recognized in non-current and current financial liabilities. The lease liabilities recognized included an amount of EUR 298 million that had already been recognized under finance leases as of December 31, 2018.
- First-time application did not have any effects on equity.

The difference between the expected payments for operating leases as of December 31, 2018, discounted using the incremental borrowing rate, which amounted to EUR 621 million, and the lease liabilities of EUR 832 million recognized in the balance sheet on January 1, 2019, is mainly the result of taking account of existing finance leases and a new estimate of expected lease payments, attributable to the recognition of certain variable lease payments, for example. The lease terms taken into account when recognizing liabilities were also reassessed in accordance with the rules of IFRS 16. In this process, reasonably certain extension and termination options were taken into account in determining the lease payments to be recognized. In addition, lease payments for low-value and short-term leases are not included in the lease liabilities as of January 1, 2019.

Unlike the previous method, which showed all expenses for operating leases in the operating profit, according to IFRS 16 only depreciation on the right-of-use assets is recognized in the operating profit. Interest expenses from compounding lease liabilities are reported in the financial result. This increased the operating profit by EUR 19 million in the 2019 fiscal year.

The change in the recognition of expenses from operating leases in the cash flow statement results in an improvement of EUR 103 million in the cash flow from operating activities and the net cash flow in the 2019 fiscal year. There was a corresponding reduction in the cash flow from financing activities. The increase in financial liabilities resulting from the change in the accounting rules had a negative impact of EUR 625 million on the net liquidity of the Audi Group as of December 31, 2019.

// NEW OR AMENDED STANDARDS NOT APPLIED

The following new or amended accounting standards already approved by the IASB were not applied in the consolidated financial statements for the 2019 fiscal year because their application was not yet mandatory:

Standard/Interpretation		Published by the IASB	Mandatory adoption [1]	Endorsed by the EU	Expected impact
IFRS 3	Business Combinations: Definition of a Business	Oct. 22, 2018	Jan. 1, 2020	No	No material impact
IFRS 17	Insurance Contracts	May 18, 2017	Jan. 1, 2021[2]	No	None
IAS 1 and IAS 8	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Materiality	Oct. 31, 2018	Jan. 1, 2020	Yes	No material impact
IAS 1	Classification of liabilities	Jan. 23, 2020	Jan. 1, 2022	No	No material impact

1) Mandatory first-time adoption from the perspective of AUDI AG.
2) The IASB has proposed that the date of initial application should be postponed to January 1, 2022.

// MATERIAL CHANGES TO RECOGNITION AND MEASUREMENT METHODS

The recognition and measurement methods applied in the previous year have essentially been retained. Material changes have only been made with respect to the definition of the cash-generating unit.

In the case of self-generated intangible assets and the associated property, plant and equipment, previously the individual product or individual product family normally constituted the cash-generating unit. In the past fiscal year, this unit had to be redefined for the Automotive segment because it is no longer the case that cash inflows generated by individual products are largely independent of those generated by other products. In particular, tighter emissions regulations worldwide mean that the cash inflows from individual products increasingly influence each other. As a consequence of the altered framework conditions, since October 1, 2019, the brands have generally constituted the cash-generating unit in the Automotive segment. The altered definition of the cash-generating unit resulted in a one-time reversal of impairment losses on non-current assets in the amount of EUR 243 million in the fourth quarter of 2019. This is recognized in other operating income and will result in an increase in depreciation and amortization in subsequent periods. In addition, impairment losses of EUR 89 million recognized in the first three quarters of the fiscal year had to be reversed. The adjusted definition of the cash-generating unit will result in a moderate increase in the capitalization ratio in the future.

/ NOTES ON THE DIESEL ISSUE

// IRREGULARITIES IN NO_X EMISSIONS

In September 2015, the U.S. Environmental Protection Agency (EPA) publicly announced in a “Notice of Violation” that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles with four-cylinder diesel engines of type EA 189 made by the Volkswagen Group. In this context, the Volkswagen Group announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around 11 million vehicles worldwide with type EA 189 diesel engines, including around 2.4 million Audi vehicles. In November 2015, the EPA announced in a “Notice of Violation” that irregularities had also been identified in the software installed in U.S. vehicles with type V6 3.0 TDI engines. The matter affected a total of around 113,000 vehicles of the Group brands VW, Audi and Porsche in the United States and Canada, where the regulations on NO_x limits are stricter than in other parts of the world.

In response, a large number of court and governmental proceedings were started in various countries. We have since succeeded in making substantial progress and ending a great number of these proceedings.

// COMPREHENSIVE INVESTIGATIONS LAUNCHED BY VOLKSWAGEN AND AUDI

After the first “Notice of Violation” was issued, Volkswagen and Audi immediately initiated their own internal as well as external investigations; both have since been concluded for the most part.

While Volkswagen AG, Wolfsburg, holds internal development responsibility for the four-cylinder diesel engines within the Group, AUDI AG is responsible for the development of the six and eight-cylinder diesel engines, such as diesel engines of the types V6 and V8.

AUDI AG has concluded an agreement with Volkswagen AG on joint and several liability in the event that the U.S. authorities, U.S. courts and potential out-of-court settlements do not differentiate fully between the four-cylinder diesel engines for which Volkswagen AG is accountable and the V6 3.0 TDI engines that are the responsibility of AUDI AG. Against the background of this agreement, the costs from settlement agreements will be passed onto AUDI AG according to a causation-based key.

The members of the Board of Management of AUDI AG at that time have declared that prior to their notification by EPA in November 2015, they had no knowledge of the use of unlawful “defeat device software” under U.S. law in the V6 3.0 TDI engines.

Also, the publications released at the time of preparation of the Annual and Consolidated Financial Statements as well as the Combined Management Report for the 2019 fiscal year, along with the continued investigations and interviews in connection with the diesel issue, did not provide the Board of Management with any reliable findings or assessments on the matter that would lead to a different evaluation of the associated risks.

Besides, there are no reliable findings or facts available to the incumbent Board of Management of AUDI AG suggesting that the Annual and Consolidated Financial Statements as well as the Combined Management Report for the 2019 fiscal year and previous years were materially incorrect. However, if new findings should come to light that indicate that individual members of the Board of Management at that time were aware of the diesel issue earlier, this could potentially have an effect on the Annual and Consolidated Financial Statements as well as on the Combined Management Report for the 2019 fiscal year and previous years.

Possible effects on the financial position, financial performance and net worth of AUDI AG in connection with the diesel issue may arise mainly in the legal areas presented below.

// PRODUCT-RELATED LAWSUITS WORLDWIDE

In principle, it is possible that customers in the affected markets will file civil lawsuits or that importers and dealers will assert recourse claims against Volkswagen AG, Wolfsburg, and other Volkswagen Group companies including AUDI AG. Besides individual lawsuits, various forms of collective actions (i.e. assertion of individual claims by plaintiffs acting jointly or as representatives of a class) are available in various jurisdictions. Furthermore, in a number of markets it is possible for consumer and/or environmental organizations to bring suit to enforce alleged rights to injunctive relief, declaratory judgment, or damages.

Customer class action lawsuits and actions brought by consumer and/or environmental organizations are currently pending against Volkswagen AG and other Volkswagen Group companies, including AUDI AG, in a number of countries. Alleged rights to damages and other relief are asserted in these actions. Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies, including AUDI AG, in various countries, most of which are seeking damages or rescission of the purchase contract.

// AGREEMENTS AND PROCEEDINGS IN THE USA/CANADA

In the USA, Volkswagen AG and certain affiliates, including AUDI AG, reached settlement agreements with various government authorities and private plaintiffs, the latter represented by a Plaintiffs’ Steering Committee in a multidistrict litigation in California. These agreements resolved certain civil claims as well as criminal charges under U.S. federal law and the laws of certain U.S. states in connection with the diesel issue. As part of the agreements entered into with the U.S. Department of Justice and the State of California (Plea Agreement and Third Partial Consent Decrees), a Compliance Monitor and Compliance Auditor was appointed for Volkswagen in 2017 for a term of three years.

Additionally, in the USA and Canada, the matters described in the EPA’s “Notices of Violation” are the subject of various types of lawsuits and requests for information that have been filed in particular by customers, investors, salespersons, and various government agencies in Canada and the United States, including the attorneys general of several U.S. states, against Volkswagen AG and other Volkswagen Group companies, including AUDI AG.

In the fiscal year, Volkswagen AG and certain affiliates settled the consumer protection claims asserted by the Attorney General of the U.S. state of New Mexico, the last remaining state asserting consumer protection claims.

The attorneys general of five U.S. states (Illinois, Montana, New Hampshire, Ohio, and Texas) and some municipalities have suits pending in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc., Herndon (Virginia), and certain affiliates, including AUDI AG, alleging violations of environmental laws. In the fiscal year, the environmental claims of two states – Alabama and Tennessee – were dismissed in full by trial or appellate courts as preempted by federal law with no possibility of further appeal, and the New Mexico Attorney General voluntarily dismissed its environmental claims. The claims asserted by Illinois, Hillsborough County (Florida), and Salt Lake County (Utah) have been dismissed in full, but those dismissals have been appealed. Certain of the claims asserted by Ohio, Texas, and two Texas counties have also been dismissed, but those suits are currently proceeding as to other claims.

Furthermore, in December 2019, the Canadian federal environmental regulator filed charges against Volkswagen AG in respect of Volkswagen and Audi brand vehicles with 2.0 TDI and V6 3.0 TDI engines at the conclusion of its criminal enforcement-related investigation into the diesel emissions issue. Volkswagen AG cooperated with the investigation and agreed to a plea resolution addressing all of the charges. In January 2020, Volkswagen AG pleaded guilty to the charges and agreed to pay a penalty of CAD 196.5 million, which was approved by the court. Following this approval, the Ontario provincial environmental regulator withdrew its action against Volkswagen AG charging a quasi-criminal enforcement-related offense with respect to certain Volkswagen and Audi vehicles with 2.0 TDI engine. Additionally, a certified environmental class action is pending on behalf of residents in Quebec. This action was authorized on the sole issue of whether punitive damages could be recovered. The appeals filed by Volkswagen were denied. The case remains in the early stages.

// CONSULTATION WITH GOVERNMENT AGENCIES ON TECHNICAL MEASURES WORLDWIDE

In agreement with the respective responsible authorities, the Volkswagen Group is making technical measures available worldwide for virtually all diesel vehicles with type EA 189 engines. Within its area of responsibility, the Federal Motor Transport Authority (Kraftfahrt-Bundesamt or KBA) ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO_2 emission figures, engine output, maximum torque, and noise emissions.

Following the studies carried out by AUDI AG to check all relevant diesel concepts for possible irregularities and retrofit potentials, measures proposed by AUDI AG have been adopted and mandated by the KBA in various recall orders pertaining to vehicle models with V6 and V8 TDI engines.

Currently, AUDI AG assumes that the total cost, including the amount based on recalls, of the ongoing largely software-based retrofit program that began in July 2017 will be manageable and has recognized corresponding balance-sheet risk provisions. AUDI AG has in the meantime developed software updates for many of the affected powertrains and, after approval by the KBA, already installed these in the vehicles of a large number of affected customers. The approvals that are still outstanding are expected in the course of 2020.

As the type approval authority of proper jurisdiction, the KBA is moreover continuously testing Audi, VW, and Porsche brand vehicles for problematic functions. If certain functions are deemed impermissible by the KBA, the affected vehicles are recalled pursuant to a recall order or they are brought back into compliance by means of a voluntary service measure.

// CRIMINAL AND ADMINISTRATIVE PROCEEDINGS IN GERMANY

In July 2019, the Munich II Office of the Public Prosecutor issued indictments, including one against the former Chairman of the Board of Management of AUDI AG, charging, among other things, fraud relating to 3.0 TDI engines in connection with the diesel issue. Based on the information available at the present time, no change in the risk situation of AUDI AG results from these indictments. AUDI AG appointed renowned law firms to clarify the matters underlying the public prosecutor’s accusations. The Board of Management and Supervisory Board receive regular updates on the current status.

// FINANCIAL IMPACT OF THE DIESEL ISSUE

In the 2019 fiscal year, the effects on earnings in connection with the diesel issue were of lesser importance overall when compared with the amounts reported in the previous year.

// OTHER MATERIAL LITIGATION

In April 2019, the European Commission issued a statement of objections to Volkswagen AG, AUDI AG, and Dr. Ing. h.c. F. Porsche AG, Stuttgart, in connection with the Commission's antitrust investigation of the automobile industry. These objections state the European Commission's preliminary evaluation of the matter and afford the opportunity to comment. The subject matter of the proceedings is limited to the cooperation of German automobile manufacturers on technical questions in connection with the development and introduction of SCR systems and gasoline particulate filters for passenger cars that were sold in the European Economic Area. The manufacturers are not charged with any other misconduct such as price fixing or allocating markets and customers. After receiving access to the investigation files starting in July 2019, Volkswagen and Audi filed their reply to the European Commission's statement of objections in December 2019. We are not making any further statements in order to protect our company.

In the same matter, the Chinese Competition Authority has also issued information requests to Volkswagen AG, AUDI AG, and Dr. Ing. h.c. F. Porsche AG, and commenced an administrative action.

In June 2019, the U.S. District Court for the Northern District of California dismissed two putative class action complaints brought by purchasers of German luxury vehicles alleging that, since the 1990s, several automobile manufacturers, including Volkswagen AG and other Group companies conspired to unlawfully increase the prices of German luxury vehicles in violation of U.S. antitrust and consumer protection law. The court held that the plaintiffs have not stated a claim for relief because the allegations in the complaints do not plausibly support the alleged anticompetitive agreements. Plaintiffs filed amended complaints, which Volkswagen moved to dismiss. Plaintiffs in Canada filed claims with similar allegations on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen Group Canada Inc., Ajax (Ontario), Audi Canada Inc., Ajax (Ontario), and other Group companies. Neither provisions nor contingent liabilities were created because the early stage of proceedings makes an assessment currently impossible.

Volkswagen and Audi have been responding to information requests from the U.S. Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) related to automatic transmissions in certain vehicles with gasoline engines. In August 2019, Volkswagen agreed with the EPA to forfeit approximately 220,000 Greenhouse Gas Emission Credits in response to the EPA's inquiry. Also in August 2019, Volkswagen and the Plaintiffs' Steering Committee announced the settlement of civil claims relating to approximately 98,000 Volkswagen, Audi, Porsche and Bentley vehicles, thereof 8,000 Audi vehicles. Volkswagen's testing of these vehicles in connection with the information requests resulted in a 1 mile per gallon change, when rounded according to EPA rules, in the fuel economy disclosed on the "Monroney label" required by U.S. regulations. In October 2019, the Court granted preliminary approval of the settlement.

Where manageable and economically practicable, appropriate levels of insurance cover were taken out to hedge against these risks. Provisions deemed appropriate based on current knowledge were created or contingent liabilities reflecting probability of occurrence were disclosed for identifiable and measurable risks. Because some risks cannot be assessed or only assessed to a limited degree, losses arising that are not covered by the insured or reserved amounts cannot be ruled out completely. This applies in particular to the assessment of legal risks arising from the diesel issue.

/ CONSOLIDATED COMPANIES

In addition to AUDI AG, all of the material domestic and foreign subsidiaries are included in the consolidated financial statements in cases where AUDI AG has direct or indirect decision-making power over the relevant activities, thereby influencing its own variable returns. The inclusion in the group of consolidated companies begins or ends on the date on which the control is acquired or lost.

A special securities fund is included in the consolidated financial statements of the Audi Group. This structured entity pursuant to IFRS 12 does not present any special risks or result in any particular obligations for Audi.

Companies in which AUDI AG does not hold any interests, either directly or indirectly, are also included in the consolidated financial statements. Using contractual agreements, Audi is able to stipulate financial and operating policy. Because the purpose of these companies is to sell vehicles of the Audi brand and other products, there is an economic benefit for Audi if these business operations are successful. Audi is thus able to exercise a controlling interest. Non-controlling interests in equity and in profit are allocated to the following companies on a 100 percent basis in each case.

Company	Non-controlling interests
Audi Canada, Inc., Ajax (Canada)	Volkswagen Group Canada, Inc., Ajax (Canada)
Audi of America, LLC, Herndon (USA)	Volkswagen Group of America, Inc., Herndon (USA)
Automobili Lamborghini America, LLC, Herndon (USA)	Volkswagen Group of America, Inc., Herndon (USA)

Further information on non-controlling interests is provided in note 26. Subsidiaries with limited business operations that are of subordinate importance, both individually and in total, with regard to providing a true and fair view of the net worth, financial position, financial performance and cash flow are not consolidated. Before consolidation, these subsidiaries account for 0.4 (0.6) percent of consolidated equity, – 3.6 (– 0.2) percent of profit after tax and 0.7 (0.8) percent of the total assets of the Audi Group. Associates and joint ventures, which, among other criteria, are of subordinate importance in terms of Audi's share in their equity and earnings, are not accounted for using the equity method for reasons of materiality.

Subsidiaries, associates and joint ventures that are not fully consolidated or consolidated using the equity method, as well as financial participations, are always reported at amortized cost. Where there is evidence that the fair value is lower, this fair value is recognized.

Since January 1, 2019, the multi-brand sales companies Audi Volkswagen Korea Ltd., Seoul (South Korea), Audi Volkswagen Middle East FZE, Dubai (United Arab Emirates), Audi Volkswagen Taiwan Co., Ltd., Taipei, and Volkswagen Group Italia S.p.A., Verona (Italy), have no longer been fully consolidated. Instead, they are included in the consolidated financial statements using the equity method. The background to this step are contracts signed with Volkswagen AG, Wolfsburg, in December 2018, that give Volkswagen AG unrestricted powers to appoint members to the governing bodies of relevance for financial and business policy at these companies effective January 1, 2019. Consequently, AUDI AG no longer exercises control. These companies were therefore deconsolidated effective January 1, 2019. AUDI AG still has the opportunity to exercise significant influence due to ongoing representation within relevant executive bodies and material business relationships. Because 100 percent of the shares in the sales companies are still held, they have been accounted for using the equity method since January 1, 2019. The deconsolidation resulted in a one-time positive effect in the amount of EUR 54 million on the other operating result. This amount contains the realization of previously eliminated intercompany profits on inventories totaling EUR 24 million. This amount is eliminated in the financial result due to the application of the equity method to the remaining 100 percent of shares, giving an overall positive effect of EUR 30 million on profit before tax. Material effects on the presentation of the net worth, financial position and financial performance of the Audi Group are outlined in the notes to the relevant financial statement items.

Autonomous Driving GmbH, Munich, and Shanghai Ducati Trading Co., Ltd., Shanghai (China), have been added to the group of consolidated companies. The initial consolidation of these companies did not have a material impact on the net worth, financial position and financial performance of the Audi Group. There were no other material changes to the group of consolidated companies.

The material companies within the Audi Group are listed following the notes.

In accordance with commercial law, a full list of companies in which Audi holds shares is deposited with the Commercial Register of Ingolstadt under HR B 1 and is also available on the Audi website at www.audi.com/subsidiaries. This list can additionally be requested directly from AUDI AG, Financial Communication/Analytics, Investor Relations, I/FU-23, Auto-Union-Straße 1, 85045 Ingolstadt, Germany.

By virtue of their inclusion in the consolidated financial statements of the Audi Group, the following companies have fulfilled the requirements of Section 264, Para. 3, or Section 264b of the German Commercial Code (HGB) and make use of the exemption rule:

- Audi Electronics Venture GmbH
- AUDI Immobilien GmbH & Co. KG
- Audi Sport GmbH

// COMPOSITION OF THE AUDI GROUP

Total	2019	2018
AUDI AG and fully consolidated subsidiaries/structured entities	40	42
of which in Germany	*10*	*9*
of which in other countries	*30*	*33*
Non-consolidated subsidiaries	41	37
of which in Germany	*23*	*23*
of which in other countries	*18*	*14*
Investments accounted for using the equity method (other countries)	8	4
Associates and joint ventures not accounted for using the equity method	23	26
of which in Germany	*19*	*21*
of which in other countries	*4*	*5*
	112	**109**

// PARTICIPATIONS IN ASSOCIATES

AUDI AG holds shares in FAW-Volkswagen Automotive Co., Ltd., Changchun (China), a Chinese automotive manufacturer which, among other activities, produces and distributes Audi brand vehicles for the Chinese market. Through its representation in this company's management and supervisory board, AUDI AG is in a position to exercise significant influence. The participating interest as of the reporting date is 5 percent.

Audi also holds a stake in Volkswagen Automatic Transmission (Tianjin) Co., Ltd., Tianjin (China), a Chinese manufacturer of transmission systems, including for Audi models. The participating interest in Volkswagen Automatic Transmission (Tianjin) Co., Ltd., was around 40 percent as of the reporting date.

Together with the BMW Group, Daimler AG and other companies, the Audi Group also has a stake in the investment company There Holding B.V., Rijswijk (Netherlands). There Holding B.V. holds around 85 percent of the shares in HERE International B.V., Eindhoven (Netherlands). HERE International B.V. is one of the world's largest producers of digital roadmaps for navigation systems. However, since the shares held do not allow the exercise of control as defined in IFRS 10, HERE International B.V. is included in the financial statements of There Holding B.V. as an associate using the equity method.

In 2019, There Holding B.V. implemented capital increases, in which Audi participated. As a result, investments accounted for using the equity method increased by EUR 69 million. The Audi Group's participating interest in There Holding B.V., Rijswijk (Netherlands), was 29.7 percent as of the reporting date.

In December 2019, the acquisition of shares by further investors in HERE International B.V., Eindhoven (Netherlands), was announced. Following the signing in December 2019, Mitsubishi Corporation (MC) and Nippon Telegraph and Telephone Corporation of Japan (NTT) intend to jointly acquire 30 percent of the shares in HERE International in the first half of 2020, subject to antitrust approvals. As a result, the stake held by There Holding B.V. in HERE International B.V. will probably decrease to around 60 percent.

Since 2018, the Audi Group has held a one-percent stake in SAIC Volkswagen Automotive Company Ltd., Shanghai (China), a Chinese company that develops, manufactures and distributes vehicles. Given its right to appoint members of executive bodies, the Audi Group is in a position to exert a significant influence. For that reason, SAIC Volkswagen Automotive Company Ltd. is recognized in the consolidated financial statements according to the equity method. The purchase price for the shares acquired by Volkswagen AG, Wolfsburg, was EUR 328 million. The purchase price allocation was completed in fiscal year 2019. The difference between the purchase price and the identified net assets was fully allocated to goodwill and amounts to EUR 291 million.

Furthermore, as outlined above, the multi-brand sales companies Audi Volkswagen Korea Ltd., Seoul (South Korea), Audi Volkswagen Middle East FZE, Dubai (United Arab Emirates), Audi Volkswagen Taiwan Co., Ltd., Taipei, and Volkswagen Group Italia S.p.A., Verona (Italy), are included in the consolidated financial statements using the equity method.

Further information on the previously described associates, which are recognized using the equity method, can also be found under note 17.

/ CONSOLIDATION PRINCIPLES

The assets and liabilities of the domestic and foreign companies included in the consolidated financial statements are recognized in accordance with the standard recognition and measurement principles of the Audi Group.

In the case of subsidiaries that are being consolidated for the first time, the assets and liabilities are to be measured at their fair value at the time of acquisition. Any identified hidden reserves and expenses are amortized, depreciated or reversed in accordance with the development of the corresponding assets and liabilities as part of the subsequent consolidation process. Where the cost of purchase of a participation exceeds the Group share in the equity of the relevant company as calculated in this manner, goodwill is created. This is then allocated to identifiable groups of assets (cash-generating units) which should benefit from the synergies of the acquisition. Goodwill at this level is regularly subject to impairment testing as of the reporting date, with an impairment loss being recognized if necessary.

Within the Audi Group, the predecessor method is always applied in relation to common control transactions. Under this method, the assets and liabilities of the acquired company or business operations are measured at the gross carrying amounts of the previous parent company. The predecessor method thus means that no adjustment to the fair value of the acquired assets and liabilities is performed at the time of acquisition; any difference arising during initial consolidation is adjusted against equity, without affecting profit or loss.

Receivables and liabilities between consolidated subsidiaries are netted, and expenses and income eliminated. Group inventories and fixed assets are adjusted to take account of interim profits and losses. Consolidation processes affecting profit or loss are subject to deferrals of income taxes; deferred tax assets and liabilities are offset where the term and tax creditor are the same.

The same recognition and measurement methods for determining the pro rata equity as applied to subsidiaries are, as a general rule, applied to companies accounted for using the equity method. This is carried out on the basis of the last set of audited financial statements of the company in question.

The acquisition method is used for transactions under common control, which from the perspective of the Audi Group relate to associates and joint ventures.

/ FOREIGN CURRENCY TRANSLATION

The currency of the Audi Group is the euro (EUR). Foreign currency transactions in the individual financial statements of AUDI AG and the subsidiaries are translated at the prevailing exchange rate at the time of the transaction in each case. Monetary items in foreign currencies are translated at the exchange rate applicable on the reporting date. Exchange differences are recognized through the income statements of the respective Group companies.

The foreign companies belonging to the Audi Group are independent entities and prepare their financial statements in their local currency. Only Audi Hungaria Zrt., Győr (Hungary), and Audi México S.A. de C.V., San José Chiapa (Mexico) issue their annual financial statements in EUR or USD rather than in their national currencies. The concept of the “functional currency” is applied when translating financial statements prepared in a foreign currency. Assets and liabilities are translated at the closing rate. The effects of foreign currency translation of equity are reported in the reserve for currency translation differences with no effect on profit or loss. The items in the income statement are translated using weighted average monthly rates. Currency translation differences arising from the varying exchange rates used in the balance sheet and income statement are recognized in equity, without affecting profit or loss, until the disposal of the subsidiary.

// DEVELOPMENT OF THE EXCHANGE RATES SERVING AS THE BASIS FOR THE CURRENCY TRANSLATION

1 EUR in foreign currency		Year-end exchange rate		Average exchange rate	
		Dec. 31, 2019	Dec. 31, 2018	2019	2018
Australia	AUD	1.6008	1.6224	1.6108	1.5800
Brazil	BRL	4.5135	4.4449	4.4153	4.3079
United Kingdom	GBP	0.8500	0.8969	0.8776	0.8848
Japan	JPY	121.8950	125.9100	122.0698	130.3662
Canada	CAD	1.4621	1.5593	1.4859	1.5295
Mexico	MXN	21.2434	22.5204	21.5596	22.7069
Republic of Korea	KRW	1,296.3500	1,276.9000	1,305.1337	1,298.9713
Switzerland	CHF	1.0855	1.1264	1.1128	1.1549
Singapore	SGD	1.5105	1.5594	1.5274	1.5924
Taiwan	TWD	33.5802	35.0260	34.6031	35.5907
Thailand	THB	33.4441	37.0358	34.7719	38.1555
USA	USD	1.1228	1.1453	1.1197	1.1807
People’s Republic of China	CNY	7.8147	7.8773	7.7349	7.8076

RECOGNITION AND MEASUREMENT PRINCIPLES

/ EXPENSE AND REVENUE RECOGNITION

Revenue, interest income and other operating income are recognized only when the services have been provided, i.e., when the contractual partner has obtained control of the good or service. Where new and used vehicles and genuine parts are sold, the Company's performance invariably occurs upon delivery. Revenue is reported less deductions of sales allowances (discounts, price reductions, customer bonuses, rebates and financing cost subsidies). Sales allowances and other variable considerations are measured at the Audi Group based on both past experience and the respective current circumstances. Vehicles are typically sold on payment terms. A trade receivable is recognized for the period between the delivery of the vehicle and receipt of payment. Any financing component included in the transaction is only recognized if the period of time between the transfer of the goods and payment of consideration is longer than one year and the accrued amount is significant. No significant financing components exist in the Audi Group.

No revenue is initially recognized from the sale of vehicles subject to buyback agreements. The difference between the selling price and the expected buyback price is recognized as revenue on a straight-line basis over the contractual period. Until the time of the buyback, the assets for short-term contract periods are included in inventories and for long-term contract periods in the lease assets.

If services are already purchased with the vehicle and paid for in advance, a corresponding contractual liability is recorded until the service is provided. That applies to services such as inspections, maintenance and certain warranty contracts as well as mobile online services. For warranties that are provided to all customers for a certain model, provisions are typically recognized according to the processes for statutory warranties. In all other cases, the amount paid in advance by the customer is deferred and recorded as revenue over the warranty period. If the service is provided in parallel with the customer payments, then revenue is recognized with the associated invoice.

For customer-specific construction contracts, such as toolmaking orders, the proceeds are recognized according to the stage of completion over the period of the manufacturing process. The stage of completion is generally determined on the basis of the contract costs incurred as of the reporting date as a proportion of the expected total costs. If the outcome of a customer-specific construction contract cannot yet be reliably estimated, but there is still an expectation that costs will be covered, the revenue is recognized in the amount of the incurred contract costs.
If costs exceed revenue as expected, the full amount of the losses is immediately recognized as an expense. In this case, the related assets are impaired and provisions are recognized if necessary. Due to the fact that this is related to conditional receivables vis-à-vis the customer up until completion, or until payment from the customer, corresponding contract assets are recorded. When the company's service has been fully provided, a trade receivable is recorded.

Dividend income is recognized on the date when the dividend is legally approved.

For contracts with multiple components, the transaction price is distributed over the different performance obligations of the contract. Insofar as the non-vehicle services of a multi-component contract only represent an insignificant proportion compared to the vehicle, the residual method is still used. In this way, the individual valid circumstances and framework conditions in the contract can be taken into consideration. Compared with allocating the transaction price based on the relative individual selling prices, this process leads to insignificant deviations in recognizing revenue.

Measurement of revenue is generally carried out on the basis of the contract price. If variable consideration has been agreed to in a contract, the revenue is estimated using the expected value method if there are a large number of comparable contracts. In exceptional cases, the most likely amount method is used. After the estimate of the expected revenue, another check is made to establish whether uncertainties exist that would necessitate a reduction of the initially recognized revenue in order to be able to virtually eliminate the danger of negative retroactive revenue corrections.

At the Audi Group, there were no costs incurred for obtaining and fulfilling a contract.

/ INTANGIBLE ASSETS

Intangible assets acquired for consideration are recognized at their cost of purchase, taking into account ancillary costs and cost reductions, and are amortized on a straight-line basis over their useful life.

Concessions, rights and licenses relate to purchased software and rights of use (not right-of-use assets within the meaning of IFRS 16).

Goodwill from a business combination has an indefinite useful life and is subject to regular impairment testing.

Brand names from business combinations generally have an indefinite useful life and are therefore not amortized. An indefinite useful life frequently arises from the continued use and maintenance of a brand. Brand names are tested regularly for impairment.

Research costs are treated as current expenses pursuant to IAS 38. Development costs for products going into series production are capitalized, provided the cash-generating unit to which the respective intangible asset is allocated is not impaired. If the conditions stated in IAS 38 for capitalization are not met, the costs are expensed in the income statement in the year in which they occur.

Capitalized development costs encompass all direct and indirect costs that can be directly allocated to the development process. They are amortized on a straight-line basis from the start of production over the anticipated life of the developed products.

Depreciation, allocated to the corresponding functional areas, is primarily based on the following useful lives, which are reassessed yearly:

	Useful life
Concessions, industrial property rights and similar rights and assets	2–15 years
of which software	*3–5 years*
of which customer base	*2–8 years*
Capitalized development costs	4–9 years

/ PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost of purchase or construction, with straight-line depreciation applied pro rata temporis over the expected useful life.

The costs of purchase include the purchase price, ancillary costs and cost reductions.

In the case of self-constructed fixed assets, the cost of construction includes both the directly attributable material and labor costs and the indirect material and labor costs to be capitalized, including pro rata depreciation.

Depreciation is generally based on the following useful lives, which are reassessed on a yearly basis:

	Useful life
Buildings	20–50 years
Site improvements	10–20 years
Technical equipment and machinery	6–12 years
Operating and office equipment including special tools	3–15 years

/ LEASES

Until December 31, 2018, the Audi Group recognized leases in accordance with IAS 17. A lease was defined as an agreement whereby the lessor conveys to the lessee in return for a series of payments the right to use an asset for an agreed period of time. The lessor and lessee accounted for the lease on the basis of the distribution of the risks and rewards associated with the leased asset.

Insofar as all the substantial risks and rewards were transferred to the Audi Group as lessee, the respective leased assets were capitalized at fair value or the lower present value of the minimum lease payments and depreciated using the straight-line method on the basis of the useful life of the underlying asset or the lease term, if this was shorter. The payment obligations resulting from future lease payments were discounted and recognized as a liability.

Where the Audi Group was the lessee in operating leases, in other words, if not all material risks and rewards were transferred, the lease or rental payments were recognized directly as expenses in the income statement.

Since January 1, 2019, the Audi Group has recognized leases in accordance with IFRS 16. This defines a lease as a contract, or part of a contract, whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in exchange for consideration.

/ RIGHT-OF-USE ASSETS AND LEASE LIABILITIES IN ACCORDANCE WITH IFRS 16

For leases where the Audi Group is the lessee, it recognizes a right-of-use asset and a lease liability on its balance sheet. The lease liability is measured on the basis of the outstanding lease payments, discounted using the incremental borrowing rate, while the right-of-use asset is always measured at the amount of the lease liability plus the initial direct costs.

During the lease term, the right-of-use asset is depreciated over the period of the lease using the straight-line method. The lease liability is subsequently measured using the effective interest method, taking into account the lease payments made.

The right-of-use assets are recognized on the balance sheet in the items where the assets underlying the lease would have been recognized if they had been the economic property of the Audi Group. As of the reporting date, right-of-use assets are therefore recognized in non-current assets, in the items property, plant and equipment, and investment property.

There are recognition exemptions for short-term leases (with a maximum term of one year) and for low-value asset leases. The Audi Group makes use of these practical expedients and therefore does not recognize a right-of-use asset or a liability for such leases. The relevant lease payments are recognized as an expense in the income statement. A lease is treated as low value if the value of the leased asset when it is new does not exceed EUR 5 thousand. In addition, the accounting provisions of IFRS 16 are not applied to leases that relate to intangible assets. In principle, IAS 38 is still applied for leased intangible assets.

Many leases contain extension and termination options. When determining the lease term, account is taken of all relevant facts and circumstances that create an economic incentive to exercise, or not to exercise, the option. Optional periods are taken into account in the determination of the lease term insofar as it is reasonably certain that the extension option will be exercised or it is not reasonably certain that the termination option will be exercised.

/ LEASE ASSETS

The recognition of leases for lease assets is based on their classification as operating leases or finance leases. The classification reflects the risks and rewards associated with the economic ownership of the leased asset.

Under an operating lease, all the substantial risks and rewards are allocated to the Audi Group. The leased asset is recognized at amortized cost in the fixed assets of the Audi Group and the lease payments received in the period are recognized as revenue in the income statement.

Leased vehicles are recognized at cost of purchase or cost of goods sold in the case of operating leases and depreciated using the straight-line method over the term of the lease down to their estimated residual value. Impairments to be recognized due to the impairment test based on IAS 36 have been taken into account through impairment losses. Based on local factors and past experience from the marketing of used cars, updated internal and external information on the development of residual value is incorporated into the residual value forecasts on an ongoing basis. In this context, it is necessary to make assumptions, especially regarding the future supply and demand of cars and the development of car prices. These assumptions are based either on best estimates or on publications by third-party experts. Best estimates are based, where available, on external data, taking into account supplementary internal information such as past experience and up-to-date sales data.

Current leased assets comprise vehicles leased out under operating leases with a term of up to one year and vehicles that are subject to a buyback obligation within one year on the basis of buyback agreements. These vehicles are measured at cost of goods sold or net realizable value, whichever is lower. Based on local factors and past experience from the marketing of used cars, updated internal and external information is incorporated into the measurement on an ongoing basis.

In the case of a finance lease, all the substantial risks and rewards are transferred to the lessee. The underlying asset is derecognized from the fixed assets of the Audi Group and a receivable in the amount of the net investment value of the lease is recognized instead.

/ INVESTMENT PROPERTY

Land or buildings held with the intention of generating rental income are reported in the balance sheet at amortized cost. The amortization periods applied are, as a general rule, those applied to property, plant and equipment used by the Audi Group itself. In the case of measurement at amortized cost, the fair values calculated as a general rule using internal calculations based on the discounted cash flow method are also to be stated. These calculations are made based on the rental income generated from real estate and the real estate-specific discount rates.

/ INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Companies in which AUDI AG is directly or indirectly able to exercise significant influence on financial and operating policy decisions (associates) are accounted for using the equity method. This means that changes in equity are reflected on a pro rata basis in the carrying amount of the investment. The share of the profit of the associate is reported in the financial result.

/ BORROWING COSTS

Borrowing costs that can be allocated directly to a qualifying asset are capitalized as part of that asset’s cost of purchase or construction. A qualifying asset is an asset where a longer period of time (at least one year) is required before the asset is ready for use or sale.

/ IMPAIRMENT TESTS

Fixed assets are tested regularly for impairment as of the reporting date.

With regard to impairment testing of goodwill and of other intangible assets, as a general rule, the Audi Group reports the higher of value in use and fair value less costs to sell of the respective cash generating unit. The calculation of value in use is based on current planning prepared by the management. This planning is based on expectations regarding the future development of the respective markets, market shares as well as the profitability of the products and the product portfolio. The planning period is five years. Plausible assumptions about future development are made for the subsequent years. In each case, the planning assumptions are adjusted in line with current findings. Appropriate assumptions about macroeconomic trends and historical developments are taken into account.

Cash flows are, in principle, calculated on the basis of the expected growth rates in the sales markets concerned. The operating profit of the Automotive and Motorcycles segments, including all cash-generating units, is expected to grow until the end of the detailed planning period. Estimated cash flow following onto the detailed planning period is based on an annual growth rate of 1.0 (1.0) percent in the Automotive unit and 1.0 (1.0) percent in the Motorcycles unit.

For impairment testing of goodwill and other intangible assets with indefinite and limited useful lives, primarily capitalized development costs and the associated property, plant and equipment, the value in use is determined using the following weighted average cost of capital (WACC) before taxes:

in %	2019	2018
Automotive segment	5.7	5.5
Motorcycles segment	5.4	5.7

The cost of capital is calculated based on the risk-free interest rate. As well as the market risk premium and the cost of debt, specific peer group information for beta factors and the debt ratio are taken into account, including changes in the debt ratio resulting from initial application of IFRS 16. The composition of the peer groups used to determine the beta factors is continuously reviewed and adjusted if necessary.

Impairment tests are carried out at the level of the cash-generating unit on development activities, acquired property rights, and property, plant and equipment on the basis of expected product life cycles, the respective revenue and cost situation, current market expectations and currency-specific factors. Since October 1, 2019, the cash-generating unit in the Automotive segment has generally been the brand. In the Motorcycles segment, the cash-generating unit is still the individual product or individual product family.

Impairment losses pursuant to IAS 36 are recognized where the recoverable amount, i.e. the higher amount from either the continued use or the disposal of the asset in question, has declined below its carrying amount. If necessary, an impairment loss is recognized as a result of this test.

Sensitivity analyses have shown that, even in the case of differing key assumptions within a realistic framework, there is no need to recognize an impairment for goodwill and other intangible assets with an indefinite useful life.

If the reason for a previously recorded impairment loss ceases to exist, the asset is written up to the recoverable amount but to no higher than the amount of the amortized cost (see also the comments on changes to the cash-generating unit in the section headed “Material changes to recognition and measurement methods”). Any impairment of goodwill is never reversed.

/ *FINANCIAL INSTRUMENTS*

Financial instruments are contracts that create a financial asset for one party and, at the same time, a financial liability or equity instrument for the other party.

Regular way purchases or sales of financial assets are recognized on the settlement date. Initial measurement of financial assets and liabilities is carried out at fair value. The subsequent measurement depends on the allocation to categories pursuant to the provisions of IFRS 9.

Financial assets are categorized as follows:

- Financial assets measured at amortized cost,
- Financial assets measured at fair value through other comprehensive income (debt instruments),
- Financial assets measured at fair value through other comprehensive income (equity instruments) and
- Financial assets measured at fair value through profit or loss.

Financial liabilities are categorized as follows:

- Financial liabilities measured at amortized cost,
- Financial liabilities measured at fair value through profit or loss.

The amortized cost of a financial asset (debt instrument) or a financial liability is the amount

- with which a financial asset or a financial liability was measured at the time of initial recognition,
- minus any principal repayments and

- any loss allowances made, impairment losses, loss allowances for uncollectable debts and any write-downs for impaired and uncollectable financial assets
- plus or minus the cumulative amortization of any difference between the original amount and the amount to be repaid at final maturity (premium, discount, transaction costs), that is amortized using the effective interest method over the term of the financial asset or the financial liability.

The classification and measurement of financial assets (debt instruments) is based on the business model in which an asset is held and on cash flow characteristics.

Financial assets measured at amortized cost (debt instruments) are held as part of a business model, the objective of which is to recognize contractual cash flows. The cash flows from these financial assets are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through other comprehensive income (debt instruments) are held as part of a business model, the objective of which is both to collect contractual cash flows and to sell financial assets.

Financial assets (debt instruments) that cannot be allocated to one of the aforementioned categories are measured at fair value and changes are reported in the income statement, i.e., with an effect on profit or loss, if the cash flows from the financial assets do not solely comprise repayments of principal or interest on the principal amount outstanding, or they are held as part of a business model that includes the sale of financial assets.

At the Audi Group, equity instruments are measured at fair value through other comprehensive income if they are not held for trading purposes. In general, the fair value through OCI option without recycling is used for participations.

In the case of current financial assets and liabilities, the amortized costs basically correspond to the nominal value or the repayment value.

Fair value generally corresponds to the market value or trading price. If no active market exists, fair value is determined as far as possible using other observable input factors. If no such input factors are available, fair value is determined using market pricing techniques, for example by discounting future cash flows at a market interest rate or applying established option pricing models.

The fair value option of measuring financial assets and liabilities at fair value through profit and loss is not used at the Audi Group.

Financial instruments are derecognized if the rights to payments have expired or been transferred and the Audi Group has transferred substantially all opportunities and risks associated with their title. In factoring, all opportunities and risks are transferred. Derecognition only takes place if a receivable is viewed as unrecoverable.

Financial assets and liabilities are only offset if offsetting the amounts is legally enforceable at the current time and if there is an actual intention to offset. As a general rule, no financial assets and liabilities are offset within the Audi Group due to the required conditions not being met. Given the general lack of any master netting arrangements or similar arrangements, it is also not possible to carry out offsetting under certain conditions.

Subsidiaries or associates and joint ventures that are not consolidated for reasons of materiality, do not fall under the area of applicability of IFRS 9 and IFRS 7.

Receivables and liabilities connected with tax allocations within the Volkswagen Group are classified as financial instruments and are recognized accordingly in the disclosures as required by IFRS 7.

Financial assets and liabilities include both non-derivative and derivative claims and commitments, as detailed below.

// FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTIZED COST

Financial assets and liabilities that are measured at amortized cost primarily are

- trade receivables and payables,
- other receivables and financial assets and liabilities,
- financial liabilities,
- cash and cash equivalents and fixed deposits.

Receivables and liabilities in foreign currencies are measured at the relevant year-end exchange rates.

In the case of current items, the fair values to be additionally indicated in the notes correspond to the amortized costs. For assets and liabilities with a remaining term of more than one year, fair values are determined by discounting future cash flows at market interest rate.

// NON-DERIVATIVE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Changes in value to financial assets that are allocated at fair value are reported either through other comprehensive income or with effect on profit or loss in the income statement.

In the case of debt instruments in the category "measured at fair value through other comprehensive income," changes in the fair value are recognized in equity, taking into account deferred taxes. Lasting changes to the fair value (impairment losses, foreign currency profits and losses, and interest according to the effective interest method) are reported through profit or loss.

All financial assets that are neither recognized at amortized cost nor measured at fair value through other comprehensive income fall under the category "Measured at fair value through profit and loss." This applies to

- financial receivables as part of the "Sales" business model,
- hedging transactions outside of hedge accounting and
- financial instruments held for sale as part of the special securities fund.

For equity instruments not held for trading purposes, the measurement is at fair value through other comprehensive income. No recycling takes place.

If there is no active market for immaterial shares and the fair values cannot be determined with a justifiable amount of effort, they are recognized according to their respective amortized costs. If there are notes regarding impairments, the lower present value of the estimated future cash flow is recognized.

// DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments are used as a hedge against foreign exchange and commodity price risks for future cash flows and for items on the balance sheet (so-called hedged items). Futures, as well as options in the case of foreign exchange risks, are taken out for this purpose. The rules for hedge accounting are applied if a clear hedging relationship between the hedged item and the hedging instrument is documented and its effectiveness demonstrated.

The way in which the change in the fair value of hedging instruments is accounted for is dependent on the type of hedging relationship. When hedging exchange rate risks from future cash flow hedges, the hedging instruments are measured at fair value. The designated effective share of the hedging instrument is recognized with no effect on profit or loss in the reserve for cash flow hedges and the non-designated share of the hedging instrument is shown with no effect on profit or loss in the reserve for the costs of hedging relationships. Recognition through profit and loss is only carried out once the hedged item has been realized. The ineffective portion of a cash flow hedge is recognized immediately through profit or loss.

When hedging value changes for balance sheet items (fair value hedges), both the hedging instrument and the hedge risk share of the hedged item are recognized at fair value. Remeasurements of hedging transactions and hedged items are reported through profit and loss. The Audi Group did not have any fair value hedges in the 2018 and 2019 fiscal years.

Derivative financial instruments that serve to hedge against market risks according to commercial criteria, but do not fulfill the strict criteria of IFRS 9 with regard to applying hedge accounting principles, are classified in the category "Financial assets and liabilities measured at fair value through profit or loss" (below also as derivatives without hedging relationship). This also applies to recognizing rights to purchase company shares as well as for the model for hedging against possible losses from buyback obligations for leasing vehicles. In addition, derivative financial instruments or parts of derivative financial instruments that are not classified as hedge accounting are classified in the category "Financial assets and liabilities measured at fair value through profit and loss." These include, for example, non-designated forward exchange contracts for hedging revenue, commodity futures, and forward exchange contracts for commodity futures.

The results from the measurement and settlement of the derivatives mentioned above are always reported in operating profit. The net income effects from fair value hedges and from derivatives that are not directly connected with business operations are recognized in the financial result.

// VALUE ADJUSTMENTS TO FINANCIAL INSTRUMENTS

Financial assets are exposed to default risks that are taken into consideration in the recognition of loss allowances or, for losses already incurred, by reporting an impairment.

Specifically, loss allowances are recognized on these financial receivables in the amount of the expected default (expected loss) in accordance with Group-wide standards. The amount of these loss allowances is always determined based on historic default rates and in some cases also based on future-oriented parameters such as expected default probabilities. These loss allowances are taken into account when forming specific valuation allowances. Potential impairment is not just assumed in the event of objective indications of impairment such as a payment delay of a specific duration, introduction of coercive measures, threat of insolvency or over-indebtedness, application for or opening of insolvency proceedings or failure of restructuring measures, but also for receivables that are not yet past due.

Credit default risks are to be considered for all financial assets that are measured at amortized costs or as having no effect on profit or loss at fair value with recycling, as well as for contractual financial assets pursuant to IFRS 15 and liabilities from lease contracts. Impairment requirements also apply for risks from off-balance-sheet, irrevocable credit commitments and for the measurement of financial guarantees. Impairments for receivables are generally taken into consideration by recognizing loss allowances and creating specific valuation allowances.

/ DEFERRED TAXES

Pursuant to IAS 12, deferred taxes are determined according to the liability method in combination with the temporary concept. With this concept, deferred taxes are recognized for all temporary differences arising from the different valuations of assets and liabilities in the tax balance sheet and in the consolidated balance sheet. Deferred tax assets relating to tax loss carryforwards must also be recognized.

Deferred tax assets include future tax relief resulting from temporary differences between the carrying amounts in the consolidated balance sheet and the valuations in the tax balance sheet. In addition, deferred tax assets relating to tax loss carryforwards and deferred tax assets from tax relief are also recognized if it is likely that they will be used. Deferred tax liabilities depict future tax charges and are generally recorded for all taxable time differences between the figures posted in the tax balance sheet and those in the consolidated balance sheet.

Deferrals amounting to the anticipated tax burden or tax relief in subsequent fiscal years are created on the basis of the anticipated tax rate at the time of realization. In accordance with IAS 12, the tax consequences of distributions of profit are never recognized until the resolution on the appropriation of profits is adopted. The measurement of deferred tax assets for tax loss carryforwards is generally based on future taxable income in the context of a planning period of five fiscal years. The carrying amount is reduced for deferred tax assets that are unlikely to be realized.

Deferred tax assets and deferred tax liabilities are netted if the tax creditor and maturities are identical. Deferred taxes are reported pursuant to IAS 1 in relation to non-current assets/liabilities.

/ INVENTORIES

Raw materials and supplies are measured at the lower of average cost of purchase or net realizable value. Other purchase-related costs and cost reductions are taken into account as appropriate.

Work and services in progress and finished goods are measured at the lower of cost of production or net realizable value. Cost of goods sold includes direct materials and direct production wages, as well as a directly attributable portion of the necessary indirect materials and indirect labor costs, production-related depreciation, and expenses attributable to the products from the amortization of capitalized development costs. Distribution expenses, administrative expenses and interest on borrowed capital are not capitalized.

Finished goods and products are measured at the lower of cost of purchase or net realizable value.

Provision is made for all discernible storage and inventory risks in the form of appropriate reductions in the carrying amounts. Individual adjustments are made on all inventories as soon as the probable proceeds realizable from their sale or use are lower than the carrying amounts of the inventories. The net realizable value is deemed to be the estimated proceeds of sale less the estimated costs incurred up until the sale.

Current leased assets comprise vehicles leased out under operating leases with a term of up to one year and vehicles that are subject to a buyback obligation within one year on the basis of buyback agreements. These vehicles are measured at cost of goods sold or net proceeds of sale, whichever is lower. Based on local factors and past experience from the marketing of used cars, updated internal and external information is incorporated into the measurement on an ongoing basis.

/ SECURITIES, CASH AND CASH EQUIVALENTS

Securities held as current assets are measured at market value, i.e. at the trading price on the reporting date. Cash and cash equivalents are stated at their nominal value. The cash figures encompass cash and cash equivalents. Included under cash equivalents are financial resources that are highly liquid with an insignificant risk of fluctuations in value.

The Audi Group is integrated into the financial management of the Volkswagen Group. As part of cash pooling arrangements, balances are settled on a daily basis and transformed into amounts owed to or by companies of the Volkswagen Group. This increases the efficiency of both intra-Group and external transactions and also reduces transaction costs. The functionality of payment transactions is subject to regular monitoring. In addition, sufficient liquidity reserves ensure that the balances are always available without any limitations. The cash pool receivables are allocated to cash and cash equivalents on the basis of their character as cash equivalents.

/ ASSETS HELD FOR SALE

Assets or groups of assets are accounted for as “held for sale” in accordance with IFRS 5 if their sale is highly probable. If this is the case, they are presented separately in the balance sheet. The assets concerned are measured at the lower of their carrying amount and fair value less expected costs to sell. In certain cases, as with equity-method adjustments, no more adjustments are made to assets as a rule.

/ PROVISIONS FOR PENSIONS

Actuarial measurement of provisions for pensions is based on the projected unit credit method for defined retirement benefit plans as specified in IAS 19. This method takes account of pensions and entitlements to future pensions known at the reporting date as well as anticipated future pay and pension increases. The actuarial interest rate continues to be determined on the basis of profits realized on the capital market for prime-rated corporate bonds. Individual parameters used to measure provisions for pensions are described in note 31. Any effects resulting from the new measurement are reported in equity as retained earnings taking account of deferred taxes and with no effect on profit or loss.

/ INCOME TAX OBLIGATIONS

Income tax liabilities comprise current income tax obligations. Deferred taxes are reported under separate balance sheet and income statement items. Provisions are created for potential tax risks based on the best estimate.

/ SHARE-BASED PAYMENT

Share-based payment consists of performance shares. The obligations arising from share-based payment are accounted for as “cash-settled plans” pursuant to IFRS 2. Cash-settled payment plans are measured at fair value during their term. Fair value is determined using a recognized measurement process. The compensation cost is part of personnel costs in the functional areas and is allocated over the vesting period.

/ OTHER PROVISIONS

Pursuant to IAS 37, provisions are recognized if a current obligation existing toward third parties on the basis of a past event is likely to lead to cash outflows and where the amount of the obligation can reliably be estimated. Provisions with a remaining term of over one year are measured at their discounted settlement value as of the reporting date. Market interest rates are used as the discount rates. A nominal interest rate of – 0.10 (0.20) percent was applied within the eurozone. The settlement value also includes the expected cost increases. The non-current portions of provisions for long-service awards were discounted at 0.9 (1.8) percent.

Recourse entitlements in relation to provisions are reported separately in the balance sheet as receivables if it is almost certain that compensation will be paid upon settlement of the obligation. They are reported under miscellaneous receivables in the other receivables item in the balance sheet.

Other provisions include bonus contributions relating to partial retirement agreements that are accrued on a pro rata basis in accordance with the block model.

/ CONTINGENT LIABILITIES

Contingent liabilities are stated in the notes to the consolidated financial statements (see note 40, “Contingent liabilities”) if the criteria for the creation of provisions are not fulfilled but it is not unlikely that there will be an outflow of financial resources. These obligations are only recorded as liabilities once they have become specific, i.e., once the outflow of financial resources has become probable and once the amount of the outflow can be reliably estimated.

/ LIABILITIES

Non-current liabilities are reported in the balance sheet at amortized cost. Any differences between the historical cost of purchase and the repayment value are taken into account using the effective interest method. Lease liabilities are reported in the balance sheet at the present value of the leasing installments. Current liabilities are recognized at the repayment value or settlement amounts.

/ GOVERNMENT GRANTS

Government grants related to assets are deducted from the cost of purchase or cost of goods sold and thus recognized through profit or loss as a reduced depreciation charge over the life of the depreciable asset. Government grants paid to compensate the Audi Group for expenses are as a general rule recognized through profit or loss during the period in which the corresponding expenses were incurred. If an entitlement to a grant arises retrospectively, the amount of the grant attributable to prior periods is recognized in profit or loss. Grants in the form of non-monetary assets (e.g. the use of land free of charge or the transfer of resources free of charge) are recognized at nominal amount.

/ MANAGEMENT'S ESTIMATES AND ASSESSMENTS

To some degree, the preparation of the consolidated financial statements entails assumptions and estimates with regard to the level and disclosure of the recognized assets and liabilities, income and expenses, and disclosures with regard to contingent receivables and liabilities for the reporting period. The assumptions and estimates relate primarily to the following contents:

Impairment testing of non-financial assets (particularly goodwill, brand names, capitalized development costs and the associated property, plant and equipment) and of participations accounted for using the equity method or at the cost of purchase requires that assumptions be made with regard to future cash flows during the planning period and, where applicable, with regard to the discount rate to be applied. Any impairment of the Audi Group's leased assets is also dependent in particular on the residual value of the leased vehicles after the expiry of the lease period, as this represents a significant portion of the expected incoming payment flows. In the past fiscal year, the definition of the cash-generating unit in the Automotive segment was altered (see comments on changes to the cash-generating unit in the section "Material changes to recognition and measurement methods"). Further information on impairment testing and on the measurement parameters applied can be found in the notes on impairment tests at the start of this chapter.

Carrying out impairment testing on financial assets requires estimates of the scale and likelihood of occurrence of future events. To the extent possible, estimates should be made based on current market data as well as on rating categories and scoring information from historical sources. More details on how value adjustments are determined can be found in the additional notes to the balance sheet pursuant to IFRS 7.

Provisions are also recognized and measured on the basis of an estimate of the scale and likelihood of occurrence of future events and on an estimate of the discount rate of interest. Where possible, experiences or external expert reports are also to be used. Measurement of provisions for pensions is additionally dependent on the estimated development of the plan assets. The assumptions on which the calculation of provisions for pensions is based are described in note 31. Actuarial gains or losses are recognized in other comprehensive income and do not affect profit or loss. Changes to estimates relating to the amount of other provisions are always recognized in profit or loss. The expected value approach means that subsequent allocations are regularly made to provisions or unused provisions are reversed. Income from the reversal of provisions is assigned to the functional area where the provision was originally recognized. Warranty claims resulting from sales operations are determined on the basis of previous or estimated future losses. An overview of other provisions is provided in note 33. Details with regard to litigation are provided in note 41. The aforementioned notes also contain information on the diesel issue.

Other liabilities in respect of Volkswagen AG were recognized for tax liabilities for possible future retroactive tax payments as well as for incidental tax expenses incurred in that connection. AUDI AG and its subsidiaries operate worldwide and are regularly inspected by local tax authorities. Changes in tax legislation, legal judgments and their interpretation by the tax authorities in the respective countries may result in tax payments that differ from the estimates made in the financial statements. The measurement of tax liabilities is based on the most probable valuation if the risk materializes. At Audi, whether a majority of tax uncertainties are accounted for separately or in groups depends on which presentation better predicts the materialization of the tax risk. From a tax point of view, there are assessment uncertainties in the Audi Group regarding the timing of the deductibility and measurement of balance sheet items, for example provisions and amounts capitalized, but also regarding off-balance-sheet additions, for example in the area of transfer prices for tax purposes. In many cases, there are tax uncertainties relating to the possible use of comparable market prices or similar accounting circumstances. In this case a best possible estimate of the circumstances at the reporting date is made.

Government grants are recorded based on the assessment of whether there is sufficient certainty that the required conditions are met and the grants will actually be awarded. This assessment is based on the type of legal entitlement and on past experience.

The estimate of the term of leases under IFRS 16 is based on the non-cancelable original term of the lease and an estimate of the exercise of extension and termination options. Determination of the term and the discount rates used affects the level of the right-of-use assets and lease liabilities.

When calculating deferred tax assets, assumptions are required with regard to future taxable income and the dates on which the deferred tax assets are likely to be realized.

The assumptions and estimates are based on premises that reflect the facts as known at any given time. In particular, the circumstances at the time of the preparation of the consolidated financial statements as well as the realistically assumed future development of the global and industry-specific environment are used as a basis for estimating expected future business development. Given that future business development is subject to various uncertain factors, some of which are outside the Group's control, the assumptions and estimates applied continue to be subject to a high level of uncertainty. This is particularly true of short-term and medium-term cash flow forecasts and of the discount rates used in forecasts.

Developments in this environment that deviate from assumptions and are beyond the management's sphere of influence may cause the actual amounts to differ from the estimates originally anticipated. If the actual development varies from the anticipated development, the premises and, if necessary, the carrying amounts for the assets and liabilities in question are adjusted accordingly.

For 2020, the Audi Group anticipates an unchanged pace of economic growth in the world economy compared with the previous year. Growth rates approximately in line with those seen in 2019 are expected for both advanced and emerging economies. Moreover, geopolitical tensions and conflicts, structural weaknesses in individual countries, the occurrence of infectious diseases (coronavirus, for example), financial market turbulence and increasing trade disputes continue to represent potential disruptive factors with regard to global economic growth. In addition, uncertainties surrounding the United Kingdom's exit from the European Union could add to the slowdown in economic growth. Overall, as things currently stand, no major adjustment is expected in the carrying amounts of assets and liabilities in the consolidated balance sheet in the 2020 fiscal year.

The management's estimates and assessments were based in particular on assumptions regarding the development of the economy as a whole, the development of automotive and motorcycle markets, and the development of the basic legal parameters. These estimates as well as further assumptions, are described in detail in the Report on Expected Developments.

NOTES TO THE INCOME STATEMENT

1 / *REVENUE*

EUR million	2019	2018
Audi brand	39,467	37,259
Lamborghini brand	1,743	1,316
Other Volkswagen Group brands	18	4,728
Engines, powertrains and parts deliveries	8,102	8,326
Other automotive business	5,653	6,305
Effects from hedging transactions	– 20	617
Automotive	**54,964**	**58,550**
Ducati brand	612	595
Other motorcycles business	103	104
Motorcycles	**716**	**699**
Revenue	**55,680**	**59,248**

The decline in revenue from the sale of other brand vehicles of the Volkswagen Group is due to the deconsolidation of the multi-brand sales companies (further information on this can be found in the section headed “Consolidated companies” in the chapter “General information”). Revenue from other automotive business operations primarily includes proceeds from the sale of genuine parts and long-term development and tooling orders.

Revenue of EUR 319 (293) million was reported from customer-specific construction contracts. This includes revenue from leases of EUR 174 (250) million. The year-on-year change in revenue from leases is principally due to the deconsolidation of the multi-brand sales companies.

Existing contractual liabilities as of December 31, 2018, have led to revenue of EUR 851 (742) million. In the 2019 fiscal year, revenue of EUR 145 (122) million was also realized resulting from contractual obligations from the previous periods.

2 / *COST OF GOODS SOLD*

Amounting to EUR 47,597 (50,117) million, cost of goods sold comprises the costs incurred in generating revenue and purchase costs in trading transactions.

The decline is mainly a result of the deconsolidation of the multi-brand sales companies. This item also includes expenses resulting from the creation of provisions for warranty costs, for development costs that cannot be capitalized, for depreciation and impairment losses of capitalized development costs, and for property, plant and equipment for manufacturing purposes. Impairment losses on property, plant and equipment totaling EUR 19 (208) million and on intangible assets totaling EUR 15 (16) million in the 2019 fiscal year result from adjustments to production capacity and the lower value in use of various products in the Automotive segment.

Cost of goods sold have been influenced by the diesel issue in the amount of EUR – 114 (284) million.

Government grants amounting to EUR 32 (46) million were recognized in profit or loss in the 2019 fiscal year. These grants are allocated to the corresponding functional areas.

3 / *DISTRIBUTION EXPENSES*

Distribution expenses of EUR 3,418 (4,155) million mainly include labor and material costs for marketing and sales promotion, advertising, public relations activities and outward freight, as well as depreciation attributable to the sales organization. The reduction in distribution expenses is primarily due to the deconsolidation of the multi-brand sales companies. In the reporting period, the distribution expenses contained the reversal of provisions totaling EUR 15 million in connection with the diesel issue.

4 / *ADMINISTRATIVE EXPENSES*

Administrative expenses of EUR 687 (696) million include labor and overhead costs as well as depreciation attributable to administrative operations.

5 / *OTHER OPERATING INCOME*

EUR million	2019	2018
Income from the processing of payments in foreign currency	433	445
Income from currency hedging transactions in hedge accounting	45	2
Income from other hedging transactions	485	313
Income from the reversal of loss allowances of receivables and other assets	112	27
Income from rebilling	387	324
Income from the reversal of provisions and accrued liabilities	113	73
Income from ancillary business	265	315
Income from the disposal of assets	13	12
Income from reversal of impairment losses of property, plant and equipment and intangible assets	247	4
Miscellaneous operating income	329	347
Other operating income	**2,428**	**1,862**

Income from ancillary business includes rental income from investment property in the amount of EUR 23 (24) million.

Income from the processing of payments in foreign currency largely comprises gains resulting from exchange-rate movements between the dates of output and payment, as well as exchange-rate gains resulting from measurement on the closing date.

Income from other hedging transactions mainly contains exchange rate profits from fair value measurement of derivative financial instruments for currency and commodity price hedging that are not designated in a hedging relationship.

In the fiscal year, the income from the reversal of tax provisions and deferred liabilities contained income of EUR 29 million in connection with the diesel issue.

The positive effect of EUR 243 million from the altered definition of the cash-generating unit is contained in the income from the reversal of impairment losses on property, plant and equipment and intangible assets (see comments on the changes to the cash-generating unit in the section headed “Material changes to recognition and measurement methods”).

6 / *OTHER OPERATING EXPENSES*

EUR million	2019	2018
Expenses from the processing of payments in foreign currency	343	425
Expenses from currency hedging transactions in hedge accounting	144	6
Expenses from other hedging transactions	633	609
Loss allowances on trade receivables	75	99
Loss allowances on other receivables	1	1
Expenses from the allocation and rebilling of costs	119	110
Expenses relating to litigation risks and costs	280	982
Losses on disposal of assets	13	15
Miscellaneous operating expenses	288	367
Other operating expenses	**1,896**	**2,613**

Costs from other hedging transactions mainly contain exchange rate losses from the fair value measurement of derivative financial instruments for currency and commodities hedging that are not designated in a hedging relationship.

The loss allowances on other receivables contain low-value loss allowances on receivables from long-term manufacturing. In the previous year, these were included in the loss allowances on trade receivables.

In connection with the diesel issue, expenses in the amount of EUR 239 (892) million are for the most part included in litigation risks and costs.

7 / *RESULT FROM INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD*

The result from investments accounted for using the equity method amounted to EUR 274 (261) million. Further information on investments accounted for using the equity method is provided in note 17.

8 / *NET INTEREST RESULT*

EUR million	2019	2018
Other interest and similar income	243	233
Interest income	**243**	**233**
Other interest and similar expenses	–49	–49
Interest expense for lease liabilities	–37	–19
Net interest on the net defined benefit liability	–100	–94
Result from unwinding of discounts on/discounting other non-current liabilities	–54	48
Interest expenses	**–241**	**–115**
Net interest result	**2**	**118**

9 / *OTHER FINANCIAL RESULT*

EUR million	2019	2018
Result from participations	120	318
of which income from profit transfer agreements	*7*	*15*
of which expenses from the transfer of losses	*–1*	*–29*
Result from compensatory payments	295	386
Income and expenses from securities	25	–159
Realized income and expenses from loan receivables and payables in foreign currency	21	–51
Income and expenses from remeasurement and loss allowance of financial instruments	6	–5
Income and expenses from fair value changes of hedging instruments not included in hedge accounting	–32	–37
Income and expenses from fair value changes of hedging instruments included in hedge accounting	–	0
Other financial result	**436**	**452**

The result from participations mainly comprises the share of profits of Volkswagen Konzernlogistik GmbH & Co. OHG, Wolfsburg, and of e.solutions GmbH, Ingolstadt. In the previous year, it also included dividend income in the amount of EUR 162 million from the portion of the participating interest in FAW-Volkswagen Automotive Company, Ltd., Changchun (China), that was classified as held for sale in the 2017 fiscal year, and the capital gains from the sale of these shares in the amount of EUR 154 million. Furthermore, impairment losses of EUR 2 (62) million are included for participations in the Automotive segment. Moreover, income of EUR 15 million from the reversal of impairment losses on participations was recorded in the reporting period. This was attributable to the remeasurement of a participation in the Automotive segment.

Income from compensatory payments concerns a financial compensation agreed between AUDI AG and Volkswagen AG, Wolfsburg, in relation to the economic performance of the respective brands achieved by FAW-Volkswagen Automotive Company, Ltd., and SAIC Volkswagen Automotive Company Ltd., Shanghai (China).

10 / *INCOME TAX EXPENSE*

Income tax expense includes taxes passed on by Volkswagen AG, Wolfsburg, on the basis of the single-entity relationship between the two companies for tax purposes, along with taxes owed by AUDI AG and its consolidated subsidiaries, as well as deferred taxes.

EUR 990 (531) million of the actual income tax expense was charged to Volkswagen AG.

EUR million	2019	2018
Actual income tax expense	1,302	793
of which in Germany	*1,010*	*570*
of which in other countries	*292*	*222*
of which income from the reversal of tax provisions	*–12*	*–13*
Deferred tax income/expense	–23	105
of which in Germany	*63*	*66*
of which in other countries	*–85*	*39*
Income tax expense	**1,279**	**898**
of which non-period tax income	*–80*	*–114*

The actual taxes in Germany are calculated at a tax rate of 29.8 (29.9) percent. This represents the sum of the corporation income tax rate of 15.0 percent, the solidarity surcharge of 5.5 percent and the average trade income tax rate for the Group. The deferred taxes for companies in Germany are calculated at a rate of 29.8 (29.8) percent. The local income tax rates applied to foreign companies range from 9 percent to 34 percent.

The effects arising as a result of tax-exempt foreign revenue and tax benefits on research and development expenditure in Hungary are reported under tax-exempt revenue in the tax reconciliation accounts.

The impairment testing of deferred tax assets is generally based on future taxable income within the context of a planning period of five fiscal years. The result of the impairment test is a deferred tax expense from the devaluation of deferred tax claims of EUR 2 (8) million and a deferred tax income from the reversal of impairment of deferred tax assets of EUR 13 (5) million.

Loss carryforwards total EUR 2,985 (3,058) million, of which EUR 320 (158) million may be used indefinitely, with EUR 2,665 (2,900) million that can be used within a time period of 11 or 17 years. Overall, loss carryforwards in the amount of EUR 1,751 (2,109) million were classed as unusable. In the 2019 fiscal year, the realization of tax losses led to a reduction in current income tax expense of EUR 29 (16) million. Deferred tax assets of EUR 215 (257) million relating to tax loss carryforwards were not reported due to impairment.

No deferred tax claims were recorded in the balance sheet for deductible temporary differences in the amount of EUR 1 (1) million. In the current fiscal year, the measurement of deferred tax assets relating to tax concessions led to their recognition in full in the balance sheet.

Deferred tax liabilities of EUR 116 (107) million for temporary differences and non-distributed profits of AUDI AG subsidiaries were not recorded due to the existence of control pursuant to IAS 12.39.

Deferred taxes of EUR 3 (6) million were capitalized, with no deferred tax liabilities in the corresponding amount being offset against them. Following a loss in the current fiscal year or in the prior year, the companies concerned are expecting to record a positive tax income in future.

Of the deferred taxes reported in the balance sheet, a total of EUR 854 (368) million was recorded in the current fiscal year with a resulting increase in equity, without influencing the income statement.

The recording of actuarial gains without affecting profit or loss, pursuant to IAS 19, led to an increase in equity of EUR 579 million in the current fiscal year from the recognition of deferred taxes. Deferred taxes amounting to EUR 17 million were recorded from these effects during the previous year with a resulting decrease in equity. The change in deferred taxes on the effects recognized in equity for hedging transactions led to an increase of EUR 275 (385) million in equity.

Deferred taxes posted directly in equity in the current fiscal year are broken down in detail in the statement of comprehensive income.

10.1 / DEFERRED TAX ASSETS AND LIABILITIES ON RECOGNITION AND MEASUREMENT DIFFERENCES RELATING TO INDIVIDUAL BALANCE SHEET ITEMS AND ON TAX LOSS CARRYFORWARDS

EUR million	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Intangible assets	7	20	1,785	1,764
Property, plant and equipment	62	257	181	144
Long-term financial investments	0	0	11	39
Inventories	75	168	2	4
Receivables and other assets	264	261	584	686
Other current assets	278	205	1	1
Provisions for pensions	1,660	1,169	–	–
Liabilities and other provisions	2,718	2,385	35	34
Loss allowances on deferred tax assets from temporary differences	–34	–41	–	–
Temporary differences, net of loss allowances	5,030	4,424	2,599	2,672
Loss carryforwards after impairment	130	92	–	–
Tax credits, net of loss allowances	43	64	–	–
Value before consolidation and offset	**5,203**	**4,579**	**2,599**	**2,672**
of which non-current	*3,116*	*2,807*	*2,039*	*2,079*
Offsetting	–2,402	–2,434	–2,402	–2,434
Consolidation measures	156	173	6	33
Amount recognized	**2,957**	**2,319**	**204**	**270**

10.2 / RECONCILIATION OF EXPECTED TO REPORTED INCOME TAX EXPENSES

EUR million	2019	2018
Profit before income tax	5,223	4,361
Expected income tax expense 29.8% (29.9%)	1,556	1,304
Reconciliation:		
Divergent foreign tax burden	–71	–153
Tax portion for tax-exempt income	–199	–370
Tax portion for expenses not deductible for tax purposes	47	55
Tax portion for effects from loss carryforwards and tax credits	–38	39
Tax portion for permanent accounting differences	85	23
Taxes of prior periods	–80	–114
Effects of tax rate changes	5	18
Other tax effects	–26	96
Income tax expense reported	**1,279**	**898**
Effective tax rate in %	24.5	20.6

11 / PROFIT TRANSFER TO VOLKSWAGEN AG

The amount of EUR 3,752 (1,096) million will be transferred to Volkswagen AG, Wolfsburg, under the profit transfer agreement with AUDI AG.

12 / EARNINGS PER SHARE

	2019	2018
Profit share of AUDI AG shareholders (EUR million)	3,850	3,382
Weighted average number of shares	43,000,000	43,000,000
Earnings per share in EUR	**89.53**	**78.64**

Basic earnings per share are calculated by dividing the share of profit due to AUDI AG shareholders by the weighted average number of shares in circulation during the fiscal year. Diluted earnings per share are the same as basic earnings per share, since there were no options on AUDI AG shares in existence on either December 31, 2019, or on December 31, 2018.

Free-float shareholders of AUDI AG will receive a compensatory payment for each no-par share in lieu of a dividend for the 2019 fiscal year. The level of this payment corresponds to the dividend that is paid on one ordinary share of Volkswagen AG, Wolfsburg. A decision regarding the dividend payment will be made at the Annual General Meeting of Volkswagen AG on May 7, 2020.

13 / *ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS IN THE INCOME STATEMENT*

13.1 / *CATEGORIES*

Financial instruments are categorized as follows pursuant to IFRS 7:

- measured at amortized cost,
- measured at fair value,
- derivative financial instruments in hedging relationships,
- not within the scope of IFRS 7 and
- credit commitments and financial guarantees.

The financial instruments that are not within the scope of IFRS 7 include shares in subsidiaries, associates and joint ventures. These are not deemed to be financial instruments for the purposes of IFRS 9.

13.2 / *NET RESULTS OF FINANCIAL INSTRUMENTS BASED ON MEASUREMENT CATEGORIES PURSUANT TO IFRS 9*

EUR million	2019	2018
Financial assets measured at amortized cost	376	180
Financial liabilities measured at amortized cost	– 101	– 201
Financial instruments measured at fair value through profit or loss	197	– 421
Net results of financial instruments	**472**	**–443**

The “Financial assets measured at amortized cost” and “Financial liabilities measured at amortized cost” include income and expenses from the measurement and settlement of foreign currency transactions as well as from the impairment model. It also includes interest income and interest expenses.

The category “Financial instruments measured at fair value through profit or loss” primarily comprises the results from the settlement and measurement of derivative financial instruments not allocated to hedge accounting, including interest, currency translation results and securities investments.

Dividend income in the amount of EUR 60 (56) million was also reported in the financial result from equity instruments measured at fair value through other comprehensive income.

13.3 / *INTEREST INCOME AND INTEREST EXPENSES FOR FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS*

EUR million	2019	2018
Interest income	187	161
Interest expenses	– 94	– 56
Financial assets and liabilities measured at amortized cost	**93**	**104**

Interest income from “Financial assets and liabilities measured at amortized cost” primarily comprises interest from the Audi Group’s cash and cash equivalents, fixed deposits and loans extended.

13.4 / *PROFITS AND LOSSES FROM THE DISPOSAL OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST*

EUR million	2019	2018
Profits from disposals of financial assets	35	0
Losses from disposals of financial assets	– 50	– 111
Result from disposals of financial assets	**–16**	**–111**

The profit from disposals of financial assets results from the settlement of receivables and loans that were impaired in the past. The losses from disposals of financial assets are due to uncollectable debts and currency translation differences.

13.5 / *PROFITS AND LOSSES FROM HEDGING RELATIONSHIPS*

// *DETAILS OF PROFITS AND LOSSES FROM CASH FLOW HEDGES*

Cash flow hedges are formed in order to hedge the risks of fluctuations in future cash flows. These cash flows can result from recognized assets and liabilities or transactions that are highly probable. The following table shows the profits and losses from hedging relationships (cash flow hedges) after taxes.

EUR million	2019	2018
Hedging of currency risk		
Profits and losses from fair value changes to hedging transactions within hedge accounting		
Recognized in equity	– 743	– 494
Recognized in the income statement	0	0
Reclassifications from the reserve for cash flow hedges in the income statement		
due to the early termination of the hedging relationship	0	0
due to the recognition of the hedged item	97	– 407

EUR –20 (617) million were reported in revenue from the recognition of the hedged item. Due to time differences between the measurement of the reserve for cash flow hedges on the respective reporting date and the recognition of the hedged item, there are differences between the reclassified amount in equity and the amount reported in the income statement.

The reclassification due to changed expectations regarding the occurrence of the hedged item is carried out through the premature termination of hedging relationships. These are mostly generated by reducing projections for hedging sales revenue. The amounts to be reclassified from equity are recorded in operating profit.

// *DEVELOPMENT OF THE RESERVE FOR CASH FLOW HEDGES*

As part of cash flow hedge accounting, the designated effective shares of a hedging relationship are to be shown in equity with no effect on profit or loss under the reserve for cash flow hedges. All of the changes to the market value of the designated components beyond that are reported as ineffectiveness through profit or loss. The following table shows a reconciliation of the reserve.

EUR million	Currency risk	
	2019	2018
Position as of Jan. 1	**685**	**1,359**
Profits and losses from effective hedging relationships	– 378	– 335
Reclassification due to changed expectations regarding the occurrence of the hedged item	0	– 1
Reclassification due to the recognition of the hedged item	– 151	– 338
Position as of Dec. 31	**156**	**685**

The profit or loss from changes to the fair value of hedging transactions within hedge accounting corresponds to the basis for determining the ineffectiveness within the hedging relationship. Income or expenses from changes in fair value of hedging instruments exceeding that of changes in fair value of the hedged item are identified as the ineffective portion of cash flow hedges. These ineffective elements within the hedging relationship occur as a result of differences in the parameters between the hedging instrument and the hedged item. This income and these expenses are reported immediately in the financial result.

// DEVELOPMENT OF THE RESERVE FOR THE COSTS OF HEDGING RELATIONSHIPS

Changes in the fair value of non-designated components of a derivative are always to be reported directly in the income statement. An exception to this principle are the fair value changes from non-designated fair values of options, insofar as they are related to the hedged item. The table below shows the development of the corresponding reserve.

EUR million	Currency risk	
	2019	2018
Position as of Jan. 1	**7**	**15**
Profits and losses from non-designated fair values of options	– 7	– 8
Position as of Dec. 31	**1**	**7**

In addition, within the Audi Group, fair value changes to non-designated forward components and cross-currency basis spreads for currency hedging transactions as part of cash flow hedges are initially reported in equity in the reserve for deferred costs of hedging relationships. As such, changes to the fair value of the non-designated components or parts thereof are only included directly in the income statement in the event of ineffectiveness. The following table shows an overview of the changes in the other equity reserves resulting from the aforementioned non-designated portions.

EUR million	Currency risk	
	2019	2018
Position as of Jan. 1	**–219**	**–**
Profits and losses from non-designated forward components and foreign currency basis spreads	– 358	– 151
Reclassification due to the recognition of the hedged item	248	– 69
Reclassification of losses anticipated to be uncollectable and thus reported in other comprehensive income	–	1
Position as of Dec. 31	**–330**	**–219**

NOTES TO THE BALANCE SHEET

14 / *INTANGIBLE ASSETS*

EUR million	Dec. 31, 2019	Dec. 31, 2018
Concessions, industrial property rights and similar rights and assets as well as licenses and customer bases	474	386
Brand names	406	408
of which Automotive	*2*	*4*
of which Motorcycles	*404*	*404*
Goodwill	378	378
of which Automotive	*88*	*88*
of which Motorcycles	*290*	*290*
Capitalized development costs	6,461	6,402
of which products currently under development	*816*	*1,325*
of which products currently in use	*5,645*	*5,077*
Payments on account for intangible assets	5	10
Intangible assets	**7,723**	**7,585**

The reported goodwill retained its value during the fiscal year. The value is also deemed retained in the event of a variation in the growth forecast and/or discount rate of +/–0.5 percentage points.

The item concessions, industrial property rights and similar rights and assets as well as licenses and customer bases contains a one-time reversal of impairment losses of EUR 12 million resulting from the altered definition of the cash-generating unit.

// *RESEARCH AND DEVELOPMENT EXPENDITURE*

EUR million	2019	2018
Research expense and non-capitalized development costs	3,281	2,585
Amortization of and impairment losses on capitalized development costs	1,143	856
Reversals of impairment losses on capitalized development costs	– 55	–
Research and development expenditure	**4,368**	**3,441**

Research and development activities in the 2019 fiscal year amounted to EUR 4,426 (4,178) million in total. Of this total, EUR 1,146 (1,593) million was capitalized. The new definition of the cash-generating unit was used for capitalization from October 1, 2019. This change resulted in a one-time reversal of impairment losses of EUR 55 million.

The capitalized development costs include borrowing costs of EUR 18 (17) million. An average rate of borrowing costs of 1.6 (1.4) percent was used as a basis for capitalization in the Audi Group. The capitalization ratio is 25.9 (38.1) percent.

15 / *PROPERTY, PLANT AND EQUIPMENT*

EUR million	Dec. 31, 2019	Dec. 31, 2018
Land, land rights and buildings, including buildings on third-party land	5,715	5,128
Technical equipment and machinery	2,392	2,525
Other plant, operating and office equipment	4,948	4,774
Payments on account and assets under construction	1,563	1,867
Property, plant and equipment	**14,618**	**14,293**

Land and buildings are secured with mortgages totaling EUR 16 (16) million.

The altered definition of the cash-generating unit resulted in a one-time reversal of impairment losses on property, plant and equipment of EUR 176 million as of October 1, 2019. In addition, impairment losses of EUR 89 million recognized in the first three quarters of the fiscal year had to be reversed.

In 2019, property, plant and equipment contained right-of-use assets capitalized in accordance with IFRS 16. In 2018, finance leases pursuant to IAS 17 existed mainly for land and buildings. The leases were based on interest rates of up to 11.6 percent depending on the region. In some cases, purchase or extension options were arranged.

// FUTURE PAYMENTS FOR NON-CANCELABLE FINANCE LEASES RELATING TO THE 2018 FISCAL YEAR

EUR million	2019	2020 to 2023	from 2024	Total
Lease payments to be made	10	32	80	122
Interest component	7	29	12	48
Present value	**3**	**2**	**68**	**74**

In the 2018 fiscal year, payments totaling EUR 189 million for assets rented on the basis of operating leases were recognized as an expense. The disclosures on leases pursuant to IFRS 16 can be found in note 38.

16 / LEASE ASSETS AND INVESTMENT PROPERTY

Lease assets amounting to EUR 8 (11) million refers to vehicles which were leased out as part of an operating lease agreement.

Investment property totaling EUR 314 (332) million is leased out. Note 38 contains an explanation of the right-of-use assets included in this amount. No impairment losses were recorded for the 2019 fiscal year, as was also the case in the previous year. Operating costs totaling EUR 6 (7) million were incurred in relation to maintenance of the investment property.

The fair value of investment property exceeds the amortized costs by EUR 119 (106) million. Fair values are calculated as a general rule using a discounted cash flow method and correspond to level 3 of the fair value hierarchy.

The following disclosures refer to leases relating to the 2018 fiscal year recognized pursuant to IAS 17. Of the investment property, land and buildings totaling EUR 211 million was leased by the Audi Group through finance leases. These leases were based on a maximum interest rate of 9.0 percent. In some cases, extension or purchase options were arranged. Future finance lease payments due in the 2018 fiscal year along with their present values are presented in note 16.1.

The investment property mentioned above is leased to third parties by means of operating leases. The resulting cash inflows for the 2018 fiscal year are shown in the following notes. Cash inflows from properties leased by the Audi Group under finance leases are presented in note 16.1, and cash inflows from the lease of properties that are under the legal ownership of the Audi Group are presented in note 16.2.

16.1 / FUTURE PAYMENTS FOR NON-CANCELABLE FINANCE LEASES RELATING TO THE 2018 FISCAL YEAR

EUR million	2019	2020 to 2023	from 2024	Total
Lease payments to be made	19	85	256	359
Interest component	10	50	62	122
Present value	**9**	**35**	**193**	**237**
Lease payments to be received from sub-leasing (operating lease)	23	82	262	367
Lease payments to be received from sub-leasing (finance lease)	1	6	22	29
Interest component	1	3	4	9
Present value	**0**	**3**	**17**	**20**

16.2 / *FUTURE CASH INFLOWS FROM NON-CANCELABLE OPERATING LEASES RELATING TO THE 2018 FISCAL YEAR*

EUR million	2019	2020 to 2023	from 2024	Total
Lease payments to be received from non-cancelable operating leases	16	49	13	78

The disclosures on leases pursuant to IFRS 16 can be found in note 38.

17 / *INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD*

Financial information on associates can be found in the following tables. The figures reflect the full values of the (translated) financial statements. Any adjustments to individual financial statements made during the application of the equity method have been taken into account accordingly.

17.1 / *MATERIAL ASSOCIATES*

// *NOTES TO THE BALANCE SHEET*

EUR million	Dec. 31, 2019			
	FAW-Volkswagen Automotive Co., Ltd.	SAIC Volkswagen Automotive Co., Ltd.	There Holding B.V.	Volkswagen Automatic Transmission (Tianjin) Co., Ltd.
Non-current assets	12,069	9,355	1,131	1,156
Current assets	11,876	8,251	467	1,928
Non-current liabilities	1,221	1,130	–	114
Current liabilities	15,321	11,674	0	1,459
Net carrying amount	7,403	4,802	1,597	1,511

EUR million	Dec. 31, 2018			
	FAW-Volkswagen Automotive Co., Ltd.	SAIC Volkswagen Automotive Co., Ltd.	There Holding B.V.	Volkswagen Automatic Transmission (Tianjin) Co., Ltd.
Non-current assets	10,651	8,580	1,763	1,116
Current assets	10,903	6,689	2	1,279
Non-current liabilities	1,260	1,205	–	327
Current liabilities	12,936	8,526	1	1,023
Net carrying amount	7,358	5,538	1,764	1,044

// RECONCILIATION TO THE CARRYING AMOUNT OF PARTICIPATIONS

EUR million	2019			
	FAW-Volkswagen Automotive Co., Ltd.	SAIC Volkswagen Automotive Co., Ltd.	There Holding B.V.	Volkswagen Automatic Transmission (Tianjin) Co., Ltd.
Net carrying amount as of Jan. 1	**7,358**	**5,538**	**1,764**	**1,044**
Profit after tax	3,524	2,749	–390	463
Other comprehensive income after tax	5	40	1	4
Change in capital	–	–	222	–
Dividends paid	–3,483	–3,524	–	–
Miscellaneous changes	–	–	–	–
Net carrying amount as of Dec. 31	**7,403**	**4,802**	**1,597**	**1,511**
Pro rata equity	370	48	475	606
Consolidation/Other	–24	291	–	–
Carrying amount of equity share	**346**	**339**	**475**	**606**

EUR million	2018			
	FAW-Volkswagen Automotive Co., Ltd.	SAIC Volkswagen Automotive Co., Ltd. [1]	There Holding B.V.	Volkswagen Automatic Transmission (Tianjin) Co., Ltd.
Net carrying amount as of Jan. 1	**6,851**	**3,622**	**2,195**	**586**
Profit after tax	3,665	2,058	–351	412
Other comprehensive income after tax	115	–143	–7	–12
Change in capital	–	–	–87	61
Dividends paid	–3,273	–	–	–
Miscellaneous changes	0	–	14	–4
Net carrying amount as of Dec. 31	**7,358**	**5,538**	**1,764**	**1,044**
Pro rata equity	368	55	522	418
Consolidation/Other	–28	291	–	–
Carrying amount of equity share	**340**	**346**	**522**	**418**

1) The reconciliation of the net carrying amount refers to the period between June 22, 2018, and December 31, 2018.

// DISCLOSURES ON THE RESULT

EUR million	2019			
	FAW-Volkswagen Automotive Co., Ltd.	SAIC Volkswagen Automotive Co., Ltd.	There Holding B.V.	Volkswagen Automatic Transmission (Tianjin) Co., Ltd.
Revenue	44,181	26,922	–	3,143
Result from continued operations	3,524	2,749	–390	463
Profit after tax	**3,524**	**2,749**	**–390**	**463**
Other comprehensive income after tax	5	40	1	4
Total comprehensive income	**3,528**	**2,789**	**–389**	**467**
Dividends received	174	35	–	–

EUR million	2018			
	FAW-Volkswagen Automotive Co., Ltd.	SAIC Volkswagen Automotive Co., Ltd. [1]	There Holding B.V.	Volkswagen Automatic Transmission (Tianjin) Co., Ltd.
Revenue	41,607	28,607	–	2,387
Result from continued operations	3,665	2,058	–351	412
Profit after tax	**3,665**	**2,058**	**–351**	**412**
Other comprehensive income after tax	115	–143	–7	–12
Total comprehensive income	**3,780**	**1,916**	**–358**	**400**
Dividends received	327	–	–	–

1) For SAIC Volkswagen Automotive Co., Ltd., the information relates to the period from June 22, 2018, to December 31, 2018.

No business operations at companies accounted for using the equity method were discontinued in 2019 or in the previous year.

17.2 / *SUMMARIZED INFORMATION ON INDIVIDUALLY IMMATERIAL ASSOCIATES*

The multi-brand sales companies Audi Volkswagen Korea Ltd., Seoul (South Korea), Audi Volkswagen Middle East FZE, Dubai (United Arab Emirates), Audi Volkswagen Taiwan Co., Ltd., Taipei, and Volkswagen Group Italia S.p.A., Verona (Italy), were included in the consolidated financial statements using the equity method for the first time in the 2019 fiscal year. The disclosures on these companies are combined for reasons of materiality.

// NOTES TO THE BALANCE SHEET

EUR million	Dec. 31, 2019
Non-current assets	301
Current assets	3,120
Non-current liabilities	203
Current liabilities	2,238
Net carrying amount	980

// RECONCILIATION TO THE CARRYING AMOUNT OF PARTICIPATIONS

EUR million	2019
Net carrying amount as of Jan. 1	**915**
Profit after tax	63
Other comprehensive income after tax	3
Change in capital	–
Dividends paid	–
Miscellaneous changes	–
Net carrying amount as of Dec. 31	**980**
Pro rata equity	980
Consolidation/Other	–65
Carrying amount of equity share	**916**

// DISCLOSURES ON THE RESULT

EUR million	2019
Revenue	8,575
Result from continued operations	63
Profit after tax	**63**
Other comprehensive income after tax	3
Total comprehensive income	**66**
Dividends received	–

No business operations at the other companies accounted for using the equity method were discontinued in 2019 or in the previous year.

18 / *DEFERRED TAX ASSETS*

The temporary differences between the tax bases and the carrying amounts in the consolidated financial statements are explained under the note “Deferred tax” in the “Recognition and measurement principles” and under note 10, “Income tax expense.”

19 / OTHER FINANCIAL ASSETS

19.1 / NON-CURRENT OTHER FINANCIAL ASSETS

EUR million	Dec. 31, 2019	Dec. 31, 2018
Positive fair values from derivative financial instruments	201	427
Fixed deposits and loans extended	5,176	5,272
Receivables from finance leases	21	20
Miscellaneous financial assets	29	24
Non-current other financial assets	**5,427**	**5,742**

Derivative financial instruments are measured at market value. The total position in relation to hedging instruments is presented under note 37.5, “Methods of monitoring the effectiveness of hedging relationships.”

19.2 / CURRENT OTHER FINANCIAL ASSETS

EUR million	Dec. 31, 2019	Dec. 31, 2018
Tax claims from Group allocations	16	–
Positive fair values from derivative financial instruments	194	411
Fixed deposits and loans extended	301	561
Receivables from leases	4	4
Miscellaneous financial assets	758	1,023
Current other financial assets	**1,273**	**1,999**

19.3 / POSITIVE FAIR VALUES OF NON-CURRENT AND CURRENT DERIVATIVE FINANCIAL INSTRUMENTS

EUR million	Dec. 31, 2019	Dec. 31, 2018
Cash flow hedges against currency risks from future cash flows	202	732
Other derivative financial instruments	193	106
Positive fair values of derivative financial instruments	**395**	**838**

20 / OTHER RECEIVABLES

20.1 / NON-CURRENT OTHER RECEIVABLES

EUR million	Dec. 31, 2019	Dec. 31, 2018
Tax claims	1	2
Miscellaneous receivables	140	127
Non-current other receivables	**141**	**128**

20.2 / CURRENT OTHER RECEIVABLES

EUR million	Dec. 31, 2019	Dec. 31, 2018
Tax claims	502	456
Miscellaneous receivables	458	458
Current other receivables	**960**	**914**

Current other receivables include conditional receivables from customer-specific construction contracts accounted for using the percentage-of-completion method. In the previous year, they were recognized in trade receivables. These correspond to the contract assets from contracts with customers and developed as follows:

EUR million	2019	2018
Position as of Jan. 1	**169**	**121**
Additions and disposals	– 57	48
Changes in scope of consolidated companies	–	–
Changes to adjustments	0	0
Changes to measurements, estimates and contract adjustments	–	–
Currency changes	–	–
Position as of Dec. 31	**112**	**169**

21 / INVENTORIES

EUR million	Dec. 31, 2019	Dec. 31, 2018
Raw materials and supplies	1,026	909
Work and services in progress	782	942
Finished goods and products	4,820	6,468
Current lease assets	1,193	1,087
Inventories	**7,819**	**9,406**

Deconsolidation of the multi-brand subsidiaries had a material impact on the decline in inventories.

Inventories amounting to EUR 44,006 (46,198) million were recorded as cost of goods sold when the corresponding revenue was realized. The impairment resulting from the measurement of inventories on the basis of sales markets amounted to EUR 321 (381) million. Impairment loss reversals amounted to EUR 34 (14) million.

Of the finished goods, a portion of the company car fleet valued at EUR 330 (306) million has been pledged as collateral for commitments toward employees under the partial retirement block model.

In addition, leased vehicles with an operating lease term of up to one year were reported in inventories in the amount of EUR 1,193 (1,087) million. In the previous year, payments expected for the following fiscal year from leases classified as non-cancelable under IAS 17 amounted to EUR 56 million. The corresponding disclosures on the leases classified in accordance with IFRS 16 can be found in note 38.

22 / *TRADE RECEIVABLES*

Trade receivables of EUR 5,011 (5,800) million will be realized within the next twelve months. The decline is mainly a result of the deconsolidation of the multi-brand sales companies. Impairment losses on trade receivables are detailed under note 37.2, “Credit and default risks.”

23 / *EFFECTIVE INCOME TAX ASSETS*

Entitlements to income tax rebates, predominantly for Group companies in other countries, are reported under this item.

24 / *SECURITIES, CASH AND CASH EQUIVALENTS*

Securities include fixed or variable-interest securities and shares in equity in the amount of EUR 5,592 (5,726) million.

Cash funds amounting to EUR 11,731 (9,309) million primarily comprise credit balances with banks and affiliated companies. The credit balances with banks amounting to EUR 920 (783) million are held at various banks in different currencies. Balances with affiliated companies include daily and short-term investments with only marginal risk of fluctuations in value and amount to EUR 10,762 (8,484) million.

25 / *ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE*

Since January 1, 2020, the Car.Software organization has grouped together those participations and subsidiaries in the Group that develop software in the vehicle and for the digital ecosystems in a dedicated company within the Volkswagen Group. As part of this, Audi divested Audi Electronics Venture GmbH, Gaimersheim, to Porsche Siebte Vermögensverwaltung GmbH, Wolfsburg.

On July 12, 2019, Volkswagen AG, Wolfsburg, announced that together with Ford Motors Corporation, Dearborn, it will invest in Argo AI, Pittsburgh, a company that specializes in software platforms for autonomous driving, and that this will be effected, among other things, by the contribution of Autonomous Intelligent Driving GmbH, Munich, a fully consolidated subsidiary of AUDI AG. The contribution of Autonomous Intelligent Driving GmbH, Munich, is expected to take place in the first half of 2020 – subject to the approval of supervisory authorities. AUDI AG will sell the company first to VW Finance Luxemburg S.A., Strassen (Luxembourg).

In December 2019, AUDI AG signed a contract to sell its entire 49.01 percent stake in csi Verwaltungs GmbH, Neckarsulm. The condition precedent for this transaction is that payment of the first installment of the purchase price is received in the first quarter of 2020.

The following tables show the carrying amounts of Audi Electronics Venture GmbH, Gaimersheim, Autonomous Intelligent Driving GmbH, Munich, and csi Verwaltungs GmbH, Neckarsulm, which are allocated to the Automotive segment:

EUR million	Dec. 31, 2019
Intangible assets	3
Property, plant and equipment	23
Lease assets	–
Other participations	65
Inventories	–
Deferred tax assets	6
Trade receivables	1
Effective income tax assets	–
Other assets	33
Cash funds	115
Assets	**246**

EUR million	Dec. 31, 2019
Financial liabilities	14
Provisions for pensions	–
Other provisions	0
Effective income tax obligations	–
Deferred tax liabilities	6
Trade payables	11
Other liabilities	21
Liabilities	**52**

26 / *EQUITY*

Information on the composition and development of equity is provided on pages 116 f. in the statement of changes in equity.

The share capital of AUDI AG is unchanged, at EUR 110,080,000. Each share represents a notional share of EUR 2.56 of the subscribed capital. This capital is divided into 43,000,000 no-par bearer shares.

The capital reserve contains additional payments from the issuance of shares in the company as well as cash injections by Volkswagen AG, Wolfsburg.

Retained earnings comprise accumulated gains and the remeasurements from pension plans.

Other reserves include changes in value recognized with no effect on profit or loss relating to hedging transactions, investments accounted for using the equity method and currency translation differences.

The opportunities and risks under forward exchange contracts and forward exchange options, and those under commodity price transactions serving as hedges for future cash flows are generally deferred in the reserve for hedging transactions with no effect on profit or loss. When the hedged item is realized, the results from the recognition of the hedging contracts are shown in the operating profit.

Currency translation differences that do not affect profit or loss and, on a pro rata basis, cash flow hedges with no effect on profit or loss as well as the effects from the remeasurement of pension schemes of investments accounted for using the equity method are included in the reserve for investments accounted for using the equity method.

The balance of EUR 98 (2,286) million remaining after the transfer of profit to Volkswagen AG is transferred to the retained earnings.

Summarized information on the individual financial statements of the largest companies in which Audi holds no shares is provided in the following tables:

26.1 / *NOTES TO THE BALANCE SHEET*

EUR million	Audi of America, LLC		Audi Canada Inc.	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Non-current assets	330	313	59	58
Current assets	3,355	4,587	657	740
Non-current liabilities	810	736	126	103
Current liabilities	2,280	3,656	460	585
Non-controlling interests	594	508	129	110

26.2 / DISCLOSURES ON THE RESULT AND THE CASH FLOW STATEMENT

EUR million	Audi of America, LLC		Audi Canada Inc.	
	2019	2018	2019	2018
Revenue	10,065	9,035	1,399	1,369
Profit after tax [1]	**75**	**66**	**12**	**11**
Other comprehensive income after tax	11	21	7	– 4
Total comprehensive income	**86**	**87**	**19**	**8**
Share of total comprehensive income attributable to non-controlling interests	86	87	19	8
Cash flow from operating activities	270	– 406	– 27	– 1
Cash flow from investing activities	657	– 431	– 5	– 206
of which change in fixed deposits and loans extended	*661*	*– 430*	*– 5*	*– 204*
Cash flow from financing activities	– 369	– 50	– 8	262
Change in cash and cash equivalents due to changes in exchange rates	14	12	10	– 5
Change in cash and cash equivalents	**573**	**– 874**	**– 30**	**50**

1) No operations were discontinued in the period under review.

27 / FINANCIAL LIABILITIES

27.1 / NON-CURRENT FINANCIAL LIABILITIES

EUR million	Dec. 31, 2019	Dec. 31, 2018
Loans	31	30
Lease liabilities	778	289
Non-current financial liabilities	**810**	**319**

27.2 / CURRENT FINANCIAL LIABILITIES

EUR million	Dec. 31, 2019	Dec. 31, 2018
Loans	122	86
Lease liabilities	117	23
Current financial liabilities	**238**	**108**

Current and non-current lease liabilities are measured using the incremental borrowing rate.

28 / DEFERRED TAX LIABILITIES

The temporary differences between the tax bases and the carrying amounts in the consolidated financial statements are explained under the note “Deferred taxes” in the “Recognition and measurement principles,” and under note 10, “Income tax expense.”

Pursuant to IAS 1, deferred tax liabilities are reported as non-current liabilities, irrespective of their maturities.

29 / OTHER FINANCIAL LIABILITIES

29.1 / NON-CURRENT OTHER FINANCIAL LIABILITIES

EUR million	Dec. 31, 2019	Dec. 31, 2018
Negative fair values from derivative financial instruments	555	456
Miscellaneous financial liabilities	8	7
Non-current other financial liabilities	**563**	**463**

The derivative financial instruments reported in other financial liabilities, which largely refer to currency hedges, are measured at fair value. The total item of currency hedging instruments is presented under note 37, “Management of financial risks.”

29.2 / CURRENT OTHER FINANCIAL LIABILITIES

EUR million	Dec. 31, 2019	Dec. 31, 2018
Negative fair values from derivative financial instruments	657	504
Liability from the transfer of profit	3,752	1,096
Miscellaneous financial liabilities	2,380	2,467
Current other financial liabilities	**6,789**	**4,067**

29.3 / *NEGATIVE FAIR VALUES OF NON-CURRENT AND CURRENT DERIVATIVE FINANCIAL INSTRUMENTS*

EUR million	Dec. 31, 2019	Dec. 31, 2018
Cash flow hedges against currency risks from future cash flows	562	228
Other derivative financial instruments	649	732
Negative fair values of derivative financial instruments	**1,211**	**960**

30 / *OTHER LIABILITIES*

30.1 / *NON-CURRENT OTHER LIABILITIES*

EUR million	Dec. 31, 2019	Dec. 31, 2018
Payments on account for orders from customers and for service agreements	798	828
Liabilities from other taxes	9	6
Social security liabilities	42	43
Liabilities from payroll accounting	95	96
Miscellaneous liabilities	148	252
Non-current other liabilities	**1,092**	**1,224**

Liabilities with a time to maturity of more than five years amount to EUR 85 (13) million.

30.2 / *CURRENT OTHER LIABILITIES*

EUR million	Dec. 31, 2019	Dec. 31, 2018
Payments on account for orders from customers and for service agreements	931	851
Payments on account from lease agreements	37	37
Liabilities from other taxes	213	248
Social security liabilities	163	138
Liabilities from payroll accounting	1,216	1,177
Miscellaneous liabilities	112	182
Current other liabilities	**2,671**	**2,634**

30.3 / *CONTRACT LIABILITIES*

Payments received for orders and services are contract liabilities and developed as follows:

EUR million	2019	2018
Position as of Jan. 1	**1,679**	**1,405**
Additions and disposals	5	244
Changes in scope of consolidated companies	25	–
Changes to measurements, estimates and contract adjustments	–	–
Currency changes	20	31
Position as of Dec. 31	**1,729**	**1,679**

31 / *PROVISIONS FOR PENSIONS*

Provisions for pensions are created on the basis of plans to provide retirement, disability and surviving dependent benefits. The benefit amounts are generally contingent on the length of service and the remuneration of employees.

Both defined contribution and defined benefit plans exist within the Audi Group for retirement benefit arrangements. In the case of defined contribution plans, the Company pays contributions to public or private sector pension plans on the basis of statutory or contractual requirements, or on a voluntary basis. Payment of these contributions releases the Company from any other benefit obligations. Current contribution payments are reported as an expense for the year in question. In the case of the Audi Group, they totaled EUR 469 (418) million. Of this, contributions of EUR 397 (387) million were paid in Germany toward statutory pension insurance.

The retirement benefit systems are based predominantly on defined benefit plans, whereby a distinction is made between provision-based systems and externally funded systems. The provisions for pensions for defined benefit plans are calculated by independent actuaries in accordance with IAS 19 using the projected unit credit method. The future obligations are measured on the basis of the pro-rata benefit entitlements acquired as of the reporting date. The measurement takes account of actuarial assumptions regarding discount rates, remuneration and retirement benefit trends and staff turnover rates. Actuarial gains and losses result from differences between the actual development and the assumptions made in the previous year, and from changes in assumptions. They are reported in equity with no effect on profit or loss during the period in which they occur as part of remeasurement, taking deferred taxes into account. These remeasurements also include the income from plan assets.

The retirement benefit plan for the Audi Group in Germany comprises a contractual trust arrangement (CTA). The trust is a contribution-based retirement benefit scheme with guarantees backed by Volkswagen Pension Trust e.V., Wolfsburg. An annual cost of providing benefits, based on remuneration and status, is converted into a retirement benefits entitlement payable for life (guarantee components) using annuity conversion factors. The annuity conversion factors include a guaranteed rate of interest. When the benefits are due, the retirement benefits components acquired annually are added together. The cost of providing benefits is invested on an ongoing basis in a dedicated fund that is managed on a fiduciary basis by Volkswagen Pension Trust e.V. and invested in the capital market. If the plan assets are higher than the present value of the obligations calculated using the guaranteed interest rate, a surplus is allocated (surplus components).

The pension fund model is classed as a defined benefit plan pursuant to IAS 19. The dedicated fund administered on a fiduciary basis satisfies the requirements of IAS 19 as plan assets and has therefore been offset against the obligations.

31.1 / *AMOUNTS RECORDED IN THE BALANCE SHEET FOR DEFINED BENEFIT OBLIGATIONS*

EUR million	Dec. 31, 2019	Dec. 31, 2018
Present value of externally funded defined benefit obligations	4,048	2,863
Fair value of plan assets	1,999	1,732
Funded status (balance)	**2,049**	**1,132**
Present value of defined benefit obligations not externally funded	4,671	4,062
Provisions for pensions recognized in the balance sheet	**6,720**	**5,194**

31.2 / *PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS*

EUR million	2019	2018
Present value as of Jan. 1	6,925	6,752
Service costs	258	264
Interest expense	135	125
Actuarial gains (–)/losses (+) following changes in demographic assumptions	– 2	+ 89
Actuarial gains (–)/losses (+) following changes in financial assumptions	+ 1,526	– 147
Actuarial gains (–)/losses (+) following experience-based adjustments	+ 6	– 42
Pension payments from company assets	– 116	– 113
Pension payments from fund assets	– 13	– 15
Income from settlements	–	0
Past service costs (incl. plan curtailment)	0	0
Changes in scope of consolidated companies	– 11	–
Effects from transfers	13	16
Currency differences	– 2	– 4
Present value as of Dec. 31	**8,719**	**6,925**

31.3 / SENSITIVITY ANALYSES

Present value of defined benefit pension obligation if		Dec. 31, 2019		Dec. 31, 2018	
		EUR million	*in %*	*EUR million*	*in %*
Discount rate	+ 0.5 percentage points	7,807	– 10.46%	6,254	– 9.69%
	– 0.5 percentage points	9,794	12.33%	7,708	11.30%
Remuneration trend	+ 0.5 percentage points	8,806	0.99%	6,992	0.96%
	– 0.5 percentage points	8,639	– 0.92%	6,864	– 0.89%
Retirement benefit trend	+ 0.5 percentage points	9,186	5.35%	7,291	5.29%
	– 0.5 percentage points	8,298	– 4.83%	6,593	– 4.80%
Life expectancy	+ 1 year	9,012	3.35%	7,134	3.02%

A change of half a percentage point in each case in the key actuarial assumptions used to calculate the present value of the defined benefit pension obligation would result in the effects shown in the table.

The sensitivity analyses take into account a changed assumption in each case, although the other assumptions remain unchanged compared with the original calculation, meaning that potential correlation effects between the individual assumptions are not taken into account.

To investigate the sensitivity of the present value of the defined benefit obligation to any change in the assumed life expectancy, the expected mortality rate is reduced as part of a comparative calculation on a scale that is roughly equivalent to an increase in life expectancy of one year.

31.4 / ALLOCATION OF THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION AMONG THE PLAN MEMBERS

EUR million	2019	2018
Active beneficiary members	6,168	4,769
Members with vested entitlements who have left the company	267	199
Pensioners	2,284	1,957
Present value as of Dec. 31	**8,719**	**6,925**

31.5 / MATURITY PROFILE OF THE DEFINED BENEFIT OBLIGATION

EUR million	2019	2018
Due within the next fiscal year	165	174
Due within two to five years	686	1,146
Due after more than five years	7,868	5,606
Present value as of Dec. 31	**8,719**	**6,925**

The average weighted term during which the Audi Group's defined benefit obligation will apply, based on the current perspective, is 23 (22) years (Macaulay Duration).

31.6 / FAIR VALUE OF PLAN ASSETS

EUR million	2019	2018
Plan assets as of Jan. 1	1,732	1,617
Interest income from plan assets	35	31
Income (-)/expenses (+) from plan assets not recognized in interest income	70	– 69
Employer contributions to the fund	163	161
Employee contributions to the fund	–	–
Pension payments from the fund	– 13	– 15
Changes in scope of consolidated companies	–	–
Effects from transfers	14	11
Currency differences	– 1	– 5
Plan assets as of Dec. 31	**1,999**	**1,732**

Employer contributions to the fund totaling EUR 168 (166) million are expected for the following fiscal year.

31.7 / *COMPOSITION OF PLAN ASSETS*

EUR million	Dec. 31, 2019			Dec. 31, 2018		
	Market price in an active market	No market price in an active market	Total	Market price in an active market	No market price in an active market	Total
Cash and cash equivalents	82	–	82	130	–	130
Debt instruments	0	–	0	–	–	–
Equity funds	532	–	532	229	–	229
Bond funds	1,259	118	1,377	1,258	110	1,367
Real estate funds	3	–	3	4	–	4
Other funds	5	–	5	–	–	–
Plan assets	**1,881**	**118**	**1,999**	**1,622**	**110**	**1,732**

As well as the general market risk, the plan assets of Volkswagen Pension Trust e.V., Wolfsburg, are mainly exposed to interest rate and share price risks. The plan assets are mainly invested in bond funds. To cushion the market risk, the benefit system provides for funds to be allocated to a fluctuation reserve prior to each surplus allocation. Additionally, the investment strategy and its implementation are monitored on an ongoing basis by the committees of Volkswagen Pension Trust e.V., which include representatives from AUDI AG. Asset liability management studies are also carried out at regular intervals, ensuring that the investment is compatible with the obligations in question.

The present value of the obligation is subject to interest rate risk. Should the value of the plan assets fall below the present value of the guaranteed obligation, provisions are created in the amount of the shortfall.

The benefit system provides for lifelong pension payments. In order to take the longevity risk into account, the most up-to-date generation mortality reference tables “HEUBECK-RICHTTAFELN 2018” are used, as these have already considered the probability of greater life expectancy in the future. As an additional measure, annual risk monitoring is carried out by an independent actuary as part of the review of the assets held by Volkswagen Pension Trust e.V. To reduce the inflation risk presented by the adjustment of current pension payments in line with the rate of inflation, a non-inflation linked indexing of pensions has been applied to pension obligations where legally permissible.

31.8 / *AMOUNTS RECOGNIZED THROUGH PROFIT OR LOSS FROM BENEFIT OBLIGATIONS*

EUR million	2019	2018
Service costs	258	264
Net interest expense (+) and income (–)	+ 100	+ 94
Past service costs (incl. plan curtailment)	0	0
Balance of amounts from defined benefit obligations recognized through profit or loss	**358**	**358**

Net interest expense/net interest income includes the interest expense from the defined benefit obligation and the expected return on plan assets (net interest approach).

31.9 / *DEVELOPMENT OF PROVISIONS FOR PENSIONS*

EUR million	2019	2018
Provisions for pensions as of Jan. 1	5,194	5,134
Service costs	258	264
Interest expense	135	125
Interest income from plan assets	– 35	– 31
Income (-)/expenses (+) from plan assets not recognized in interest income	– 70	69
Actuarial gains (–)/losses (+) following changes in demographic assumptions	– 2	89
Actuarial gains (–)/losses (+) following changes in financial assumptions	1,526	– 147
Actuarial gains (–)/losses (+) following experience-based adjustments	6	– 42
Past service costs (incl. plan curtailment)	0	0
Pension payments from company assets	– 116	– 113
Income from settlements	–	0
Employer contributions to the fund	– 163	– 161
Changes in scope of consolidated companies	– 11	–
Effects from transfers	– 1	5
Currency differences	0	0
Provisions for pensions as of Dec. 31	**6,720**	**5,194**

31.10 / *ACTUARIAL PREMISES FOR THE CALCULATION OF PENSION OBLIGATIONS*

in %	2019	2018
Discount rate	1.08	1.97
Remuneration trend	3.55	3.67
Retirement benefit trend	1.46	1.46
Employee turnover rate	1.39	1.18

The figures shown are average figures, weighted in accordance with the present values of the defined benefit obligation.

In all countries, the most recent mortality tables are used as the biometric basis for calculating retirement benefits. In Germany, these are the “Reference Tables 2018 G” published by HEUBECK-RICHTTAFELN-GmbH, Cologne. The discount rates are, as a general rule, determined on the basis of the yields on prime-rated corporate bonds. The remuneration trends encompass anticipated increases in wages and salaries, which also take account of pay increases linked to promotion. The retirement benefit trends either correspond to the contractually agreed guaranteed adjustments or are based on the relevant rules on pension indexing. The employee turnover rates are based on past experience and expectations for the future.

32 / *EFFECTIVE INCOME TAX OBLIGATIONS*

Effective income tax obligations consist primarily of tax liabilities to Volkswagen AG, Wolfsburg, under allocation plans.

33 / OTHER PROVISIONS

EUR million	Dec. 31, 2019		Dec. 31, 2018	
	Total	Of which due within one year	Total	Of which due within one year
Obligations from sales operations	7,549	2,920	8,801	3,855
Workforce-related provisions	1,580	387	1,161	331
Provisions for legal and litigation risks	766	363	836	398
Miscellaneous provisions	960	889	1,083	1,009
Other provisions	**10,855**	**4,560**	**11,881**	**5,593**

The other provisions as of the reporting date contained provisions of EUR 858 million in connection with the diesel issue. The provisions for claims relating to the airbag recall totaled EUR 193 million as of December 31, 2019.

Obligations from sales operations primarily comprise warranty claims. These result from statutory and contractual claims, principally from the sale of vehicles, parts and genuine parts, as well as ex gratia services. The provisions for warranty claims also include provisions in connection with the diesel issue and the airbag recall. Warranty claims are determined on the basis of previous or estimated future losses. The reversal of provisions arising from sales results primarily from lower expenses for warranty claims due to differences in loss experience and to optimization of warranty processes.

Audi Group companies in several countries are involved in litigation regarding the affected four-cylinder TDI engines. Based on the agreements in place, Volkswagen AG, Wolfsburg, is responsible for defending these cases and the ensuing consequences. As a result, no resource outflows are anticipated that would justify the creation of provisions. It is considered highly improbable that the Audi Group will be the subject of a joint liability claim with regard to the four-cylinder TDI issue described. For this reason, no contingent liabilities were recognized.

Volkswagen AG is the subject of a claim for reimbursement amounting to EUR 100 (227) million as a consequence of the four-cylinder TDI issue.

The workforce-related provisions mainly relate to partial retirement arrangements and long-service awards. In addition, in the 2019 fiscal year, provisions of EUR 277 million were recognized for an early retirement program in connection with the “Audi.Zukunft” initiative.

Provisions for legal and litigation risks include a range of court proceedings and claims primarily relating to product liability and patent infringements. Provisions for legal risks are also included as part of the overall diesel issue.

The miscellaneous provisions include reserves for price risks of EUR 263 (255) million.

Anticipated outflows from other provisions are 42 percent in the following year, 43 percent in the years 2021 through 2024, and 15 percent thereafter.

// CHANGE IN OTHER PROVISIONS

EUR million	Jan. 1, 2019	Currency differences	Change in scope of consoli-dated companies	Utili-zation	Reversals	Addition	Interest effect from measure-ment	Disposals of liabilities classified as held for sale	Dec. 31, 2019
Obligations from sales operations	8,801	35	–666	2,324	944	2,663	–17	–	7,549
Workforce-related provisions	1,161	0	–17	239	16	611	80	–	1,580
Provisions for legal and litigation risks	836	1	–78	150	146	313	–9	–	766
Miscellaneous provisions [1)]	1,081	3	–34	401	167	479	–1	0	960
Change in other provisions	**11,879**	**39**	**–795**	**3,114**	**1,273**	**4,066**	**54**	**0**	**10,855**

1) The opening balance has been adjusted (see disclosures on IFRS 16).

34 / TRADE PAYABLES

Trade payables totaled EUR 7,106 (8,565) million. The decline is mainly a result of the deconsolidation of the multi-brand sales companies. The customary retention of title applies to liabilities from deliveries of goods.

ADDITIONAL DISCLOSURES

35 / *CAPITAL MANAGEMENT*

The primary goal of capital management within the Audi Group is to ensure financial flexibility in order to achieve business and growth targets and to enable a continuous, steady growth in the value of the company. In particular, management is focused on achieving the minimum return demanded by the capital market on the invested assets.

To ensure that resources are deployed within the Audi Group as efficiently as possible, and to measure success, the return on investment (ROI) indicator is used.

The return on investment is the return on the average invested capital for a particular period based on the operating profit after tax. The Audi Group has set itself a minimum rate of return of 9 percent, applicable to both the segments and to the individual products and product lines.

Invested capital is calculated from the asset items reported in the balance sheet that serve the core business purpose (intangible assets, property, plant and equipment, lease assets, investment property, inventories and receivables) less non-interest-bearing liabilities (trade payables and advance payments). The average invested capital is calculated on the basis of the assets at the beginning and end of the fiscal year.

The return on investment is shown in the table below:

EUR million	2019	2018
Operating profit after tax	3,157	2,471
Invested assets (average)	24,930	24,829
Return on investment (ROI) in %	**12.7**	**10.0**

36 / *ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS IN THE BALANCE SHEET*

36.1 / *CARRYING AMOUNT OF FINANCIAL INSTRUMENTS*

EUR million	Measured at amortized cost	Measured at fair value through profit or loss	Measured at fair value through other comprehensive income	Derivatives in hedging relationships	Not allocated to a category	Carrying amount as per balance sheet as of Dec. 31, 2019
Other participations	–	–	1	–	–	1
Other financial assets	5,205	139	–	62	21	5,427
Non-current financial assets	**5,205**	**139**	**1**	**62**	**21**	**5,427**
Trade receivables	5,009	1	–	–	–	5,011
Effective income tax assets	3	–	–	–	–	3
Other financial assets	778	351	–	140	4	1,273
Securities	–	5,592	–	–	–	5,592
Cash funds	11,731	–	–	–	–	11,731
Current financial assets	**17,522**	**5,944**	**–**	**140**	**4**	**23,610**
Financial assets	**22,727**	**6,083**	**1**	**202**	**25**	**29,037**
Financial liabilities	31	–	–	–	778	810
Other financial liabilities	8	385	–	170	–	563
Effective income tax obligations	528	–	–	–	–	528
Non-current financial liabilities	**567**	**385**	**–**	**170**	**778**	**1,900**
Financial liabilities	122	–	–	–	117	238
Trade payables	7,106	–	–	–	–	7,106
Other financial liabilities	6,132	264	–	393	–	6,789
Effective income tax obligations	723	–	–	–	–	723
Current financial liabilities	14,083	264	–	393	117	14,856
Financial liabilities	**14,650**	**649**	**–**	**562**	**895**	**16,756**

EUR million	Measured at amortized cost	Measured at fair value through profit or loss	Measured at fair value through other comprehensive income	Derivatives in hedging relationships	Not allocated to a category	Carrying amount as per balance sheet as of Dec. 31, 2018
Other participations	–	–	1	–	–	1
Other financial assets	5,296	48	–	379	20	5,742
Non-current financial assets	**5,296**	**48**	**1**	**379**	**20**	**5,743**
Trade receivables	5,630	1	–	–	169	5,800
Effective income tax assets	2	–	–	–	–	2
Other financial assets	1,418	225	–	352	4	1,999
Securities	–	5,726	–	–	–	5,726
Cash funds	9,309	–	–	–	–	9,309
Current financial assets	**16,359**	**5,953**	**–**	**352**	**173**	**22,836**
Financial assets	**21,654**	**6,000**	**1**	**732**	**193**	**28,580**
Financial liabilities	30	–	–	–	289	319
Other financial liabilities	7	399	–	57	–	463
Effective income tax obligations	786	–	–	–	–	786
Non-current financial liabilities	**823**	**399**	**–**	**57**	**289**	**1,567**
Financial liabilities	86	–	–	–	23	108
Trade payables	8,565	–	–	–	–	8,565
Other financial liabilities	3,563	333	–	171	–	4,067
Effective income tax obligations	277	–	–	–	–	277
Current financial liabilities	**12,491**	**333**	**–**	**171**	**23**	**13,018**
Financial liabilities	**13,314**	**732**	**–**	**228**	**311**	**14,585**

The information contains only financial instruments and assets or liabilities to be measured according to IFRS 9. A comparison with the balance sheet is therefore only possible to a limited extent.

36.2 / *FAIR VALUE DISCLOSURES*

Measurement of financial instruments at fair value is based on a three-level hierarchy and on the proximity of the measurement factors to an active market. An active market is one in which homogeneous products are traded, where willing buyers and sellers can be found for them at all times, and where their prices are publicly available.

Level 1 of the fair value hierarchy involves the measurement of financial instruments, such as securities, listed on active markets.

Level 2 involves the measurement of financial instruments such as derivatives, where the fair value is calculated using measurement processes based on observable market data. In particular, use is made of exchange rates, yield curves and commodity prices, which can be observed on the corresponding markets and are acquired via pricing services. Within the Audi Group, level 3 mainly covers residual value hedging arrangements with dealers. The input factors for measuring the future development of used car prices cannot be observed on active markets; they are forecast by various independent institutions. The residual value hedging model is explained in note 37.4, “Market risks.” Furthermore, non-current commodity futures are also measured according to level 3, as the long-term nature of the contracts means that the key parameters for their measurement need to be extrapolated. The extrapolation for the different commodities is carried out on the basis of observable input factors, acquired via pricing services. When measuring equity instruments, the respective company plans and the company-specific discount rates are always used.

// *FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE*

EUR million	Dec. 31, 2019			
	Carrying amount	Level 1	Level 2	Level 3
Other participations	1	–	–	1
Other financial assets	201	–	157	44
Non-current financial assets measured at fair value	**202**	**–**	**157**	**45**
Trade receivables	1	–	–	1
Other financial assets	491	–	490	1
Securities	5,592	5,592	–	–
Current financial assets measured at fair value	**6,084**	**5,592**	**490**	**2**
Financial assets measured at fair value	**6,285**	**5,592**	**647**	**46**
Other financial liabilities	555	–	212	343
Non-current financial liabilities measured at fair value	**555**	**–**	**212**	**343**
Other financial liabilities	657	–	451	205
Current financial liabilities measured at fair value	**657**	**–**	**451**	**205**
Financial liabilities measured at fair value	**1,211**	**–**	**663**	**549**

EUR million	Dec. 31, 2018			
	Carrying amount	Level 1	Level 2	Level 3
Other participations	1	–	–	1
Other financial assets	427	–	425	2
Non-current financial assets measured at fair value	**428**	**–**	**425**	**3**
Trade receivables	1	–	–	1
Other financial assets	578	–	576	1
Securities	5,726	5,726	–	–
Current financial assets measured at fair value	**6,305**	**5,726**	**576**	**3**
Financial assets measured at fair value	**6,733**	**5,726**	**1,001**	**5**
Other financial liabilities	456	–	83	372
Non-current financial liabilities measured at fair value	**456**	**–**	**83**	**372**
Other financial liabilities	504	–	251	253
Current financial liabilities measured at fair value	**504**	**–**	**251**	**253**
Financial liabilities measured at fair value	**960**	**–**	**335**	**625**

// RECONCILIATION STATEMENT FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ACCORDING TO LEVEL 3

EUR million	2019	2018
Positive fair values of level 3 financial instruments as of Jan. 1	5	17
Currency changes	0	0
Income (+) and expense (–) recognized in the operating profit	+ 61	– 5
Additions	0	1
Disposals	0	0
Settlements	– 1	– 2
Transfer from level 3 to level 2	– 19	– 6
Positive fair values of level 3 financial instruments as of Dec. 31	**46**	**5**
Income (+) and expense (–) recognized in the operating profit from level 3 financial instruments still held as of Dec. 31	+ 61	– 5

EUR million	2019	2018
Negative fair values of level 3 financial instruments as of Jan. 1	625	573
Income (–) and expense (+) recognized in the operating profit	+ 244	+ 239
Settlements	– 301	– 183
Transfer from level 3 to level 2	– 19	– 4
Negative fair values of level 3 financial instruments as of Dec. 31	**549**	**625**
Income (–) and expense (+) recognized in the operating profit from level 3 financial instruments still held as of Dec. 31	+244	+239

The residual value hedging model is generally allocated to level 3. The transfer from level 3 to level 2 contains commodity futures for whose measurement it is no longer necessary to extrapolate prices because they can now be observed again on the active market.

The effects of changes in the market price of used cars resulting from hedging arrangements are shown in detail under note 37.4, “Market risks.”

Opportunities and risks resulting from the fair value fluctuations in derivative financial instruments measured according to level 3 are calculated within the Audi Group by means of sensitivity analyses. In this way, the effects of changes in commodity prices on profit after tax and equity are simulated. A 10 percent increase or decrease in commodity prices as of December 31, 2019, would positively or negatively impact profit after tax by EUR 69 (2) million. As in the prior year, in 2019 there were no effects on equity due to price changes.

// FAIR VALUES OF FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

EUR million	Dec. 31, 2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Trade receivables	5,009	5,009	–	5,009	–
Effective income tax assets	3	3	–	3	–
Other financial assets	5,983	6,174	–	6,174	–
Cash funds	11,731	11,731	11,731	–	–
Fair values of financial assets measured at amortized cost	**22,727**	**22,918**	**11,731**	**11,187**	**–**
Trade payables	7,106	7,106	–	7,106	–
Financial liabilities	153	153	–	153	–
Other financial liabilities	6,140	6,144	–	6,144	–
Effective income tax obligations	1,250	1,250	–	1,250	–
Fair values of financial liabilities measured at amortized cost	**14,650**	**14,654**	**–**	**14,654**	**–**

EUR million	Dec. 31, 2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Trade receivables	5,630	5,630	–	5,630	–
Effective income tax assets	2	2	–	2	–
Other financial assets	6,713	7,093	–	7,093	–
Cash funds	9,309	9,309	8,652	657	–
Fair values of financial assets measured at amortized cost	**21,654**	**22,034**	**8,652**	**13,382**	**–**
Trade payables	8,565	8,565	–	8,565	–
Financial liabilities	116	116	–	116	–
Other financial liabilities	3,570	3,570	–	3,570	–
Effective income tax obligations	1,063	1,063	–	1,063	–
Fair values of financial liabilities measured at amortized cost	**13,314**	**13,314**	**–**	**13,314**	**–**

In the case of the financial instruments measured at amortized cost, the fair value levels to be disclosed basically correspond to the criteria listed in note 36.2. The fair value of these financial instruments, such as receivables and liabilities, is calculated by discounting using a market interest rate that adequately reflects the risks and is based on matched maturities. Within non-current assets and liabilities, there were generally no significant changes in the ratios between balance sheet value and fair value. For reasons of materiality, the fair value for current balance sheet items is equated with the balance sheet value.

As of the reporting date, the carrying amount of lease receivables was EUR 25 (23) million. In the fiscal year and the previous year, the carrying amount corresponded to the fair value (level 3).

Held-for-sale financial assets of EUR 146 million and associated financial liabilities of EUR 11 million are allocated to the category “Measured at amortized cost.” The fair value of these assets and liabilities corresponds to the carrying amount and must be allocated to level 2 of the fair value hierarchy – except for cash and cash equivalents reported under this item (level 1). Further disclosures on the balance sheet can be found in note 25, “Assets and liabilities classified as held for sale.”

37 / *MANAGEMENT OF FINANCIAL RISKS*

37.1 / *HEDGING GUIDELINES AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT*

The principles and responsibilities involved in managing and controlling risks associated with financial instruments are stipulated by the Board of Management in accordance with the Volkswagen Group policies and statutory parameters, and are monitored by the Supervisory Board.

Operational risk management is carried out by Group Treasury, both at AUDI AG and at Volkswagen AG, Wolfsburg. The Board of Management and Supervisory Board of AUDI AG are regularly briefed on the current risk situation. Additionally, the Volkswagen Executive Committee for Risk Management is regularly updated on the current financial risks.

Read more about financial risks in the ***Management Report*** *on page 105 f.*

37.2 / *CREDIT AND DEFAULT RISKS*

Credit and default risks from financial assets relate to a possible default by a contractual party and do not exceed the carrying amounts vis-à-vis the contractual party in question and the irrevocable credit commitments. The maximum credit and default risk is reduced by collateral held and other credit enhancements. The collateral held is for the most part for financial assets in the category “Measured at amortized cost.” The risk from non-derivative financial instruments is covered by loss allowances and value adjustments for loss of receivables. The contractual parties for cash and capital investments as well as for currency and commodity hedging instruments have impeccable credit standings. In addition to this, the risks are restricted by a limit system that is based on the credit ratings of international rating agencies and the equity base of the contractual parties.

The Group's global business operations and the resulting diversification meant that there were no major risk concentrations during the past fiscal year.

// LOSS ALLOWANCES

Within the Audi Group, the expected credit loss model of IFRS 9 is applied consistently to all financial assets and other risk exposures.

Consideration of the expected credit loss model from IFRS 9 includes both the risk provisions for financial assets without objective references to impairment losses as well as the risk provision for already impaired financial assets.

The financial assets in the general approach are divided into three stages as well as into an additional stage for financial assets already affected in terms of financial soundness when they were added. Stage 1 includes financial assets that are being recorded for the first time or that show no significant increase in the default risk. At this stage, expected receivables defaults are calculated for the next twelve months. Stage 2 comprises financial assets that show a significant increase in the likelihood of a default, and stage 3 contains financial assets that already display objective signs of a default. The lifetime expected credit losses are calculated at these stages. At the Audi Group, there are no financial assets whose soundness was already in question at the time of their acquisition.

The simplified approach is applied at the Audi Group for trade receivables and contract assets with significant financing components as defined in IFRS 15. This approach is also used for lease receivables that are to be recognized in accordance with IFRS 16. In the simplified approach, the expected credit loss is calculated consistently as lifetime expected credit loss.

The following tables show the change to the loss allowances for financial assets or financial guarantees and for irrevocable credit commitments:

/// CHANGE TO LOSS ALLOWANCES FOR FINANCIAL ASSETS MEASURED AT AMORTIZED COST

EUR million	Stage 1	Stage 2	Stage 3	Simplified approach	Total
Position as of Jan. 1, 2019	**74**	**–**	**17**	**170**	**261**
Currency translation differences	2	–	–	0	2
Changes in scope of consolidated companies	– 1	–	–	– 22	– 23
Additions	1	–	–	34	35
Other changes within a stage	–	–	–	–	–
Transfer to					
Stage 1	–	–	–	–	–
Stage 2	–	–	–	–	–
Stage 3	0	–	0	–	–
Financial assets derecognized during the period	33	–	0	76	109
Utilization	–	–	0	1	1
Assets classified as held for sale	0	–	–	0	0
Changes to models or risk parameters	–	–	–	–	–
Position as of Dec. 31, 2019	**43**	**–**	**17**	**106**	**165**

EUR million	Stage 1	Stage 2	Stage 3	Simplified approach	Total
Position as of Jan. 1, 2018	**64**	**–**	**–**	**119**	**183**
Currency translation differences	0	–	–	0	0
Changes in scope of consolidated companies	0	–	–	–	0
Additions	14	–	–	73	87
Other changes within a stage	–	–	–	–	–
Transfer to					
Stage 1	–	–	–	–	–
Stage 2	–	–	–	–	–
Stage 3	0	–	80	–	80
Financial assets derecognized during the period	5	–	–	19	24
Utilization	–	–	64	2	66
Changes to models or risk parameters	–	–	–	–	–
Position as of Dec. 31, 2018	**74**	**–**	**17**	**171**	**261**

/// CHANGE TO LOSS ALLOWANCES FOR FINANCIAL GUARANTEES AND CREDIT COMMITMENTS

EUR million	Stage 1	Stage 2	Stage 3	Total
Position as of Jan. 1, 2019	**6**	**–**	**–**	**5**
Currency translation differences	0	–	–	0
Changes in scope of consolidated companies	–	–	–	–
Additions	3	–	–	3
Other changes within a stage	–	–	–	–
Transfer to				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Financial assets derecognized during the period	4	–	–	4
Utilization	–	–	–	–
Assets classified as held for sale	0	–	–	0
Changes to models or risk parameters	–	–	–	–
Position as of Dec. 31, 2019	**5**	**–**	**–**	**5**

EUR million	Stage 1	Stage 2	Stage 3	Total
Position as of Jan. 1, 2018	**5**	**–**	**–**	**5**
Currency translation differences	0	–	–	0
Changes in scope of consolidated companies	–	–	–	–
Additions	0	–	–	0
Other changes within a stage	–	–	–	–
Transfer to				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Financial assets derecognized during the period	–	–	–	–
Utilization	–	–	–	–
Changes to models or risk parameters	–	–	–	–
Position as of Dec. 31, 2018	**6**	**–**	**–**	**6**

/// CHANGE TO LOSS ALLOWANCES FOR CONTRACT ASSETS AND LEASE RECEIVABLES

EUR million	Simplified approach
Position as of Jan. 1, 2019	**2**
Currency translation differences	0
Changes in scope of consolidated companies	–
Additions	0
Other changes within a stage	–
Assets derecognized during the period	1
Utilization	–
Assets classified as held for sale	–
Changes to models or risk parameters	–
Position as of Dec. 31, 2019	**1**

EUR million	Simplified approach
Position as of Jan. 1, 2018	**1**
Currency translation differences	0
Changes in scope of consolidated companies	–
Additions	1
Other changes within a stage	–
Assets derecognized during the period	0
Utilization	–
Changes to models or risk parameters	–
Position as of Dec. 31, 2018	**2**

// MAXIMUM CREDIT RISK ACCORDING TO CATEGORIES

The following table shows the maximum credit risk to which the Audi Group is exposed as of the reporting date divided into categories to which the impairment model is applied:

EUR million	Dec. 31, 2019	Dec. 31, 2018
Financial assets measured at amortized cost	22,727	21,654
Financial guarantees and credit commitments	431	392
Not allocated to a category	138	193
Total	**23,295**	**22,238**

// RATING CATEGORIES

The Audi Group performs a credit assessment of debtors in all loan and lease agreements. For high-volume business this is performed using scoring systems; rating systems are used for corporate customers and receivables from dealer financing. Receivables rated “good” are in rating category 1. Receivables from customers whose credit rating is not good, but who have not yet had any defaults, are put in rating category 2. Rating category 3 thus shows all fully or partially defaulted receivables.

The gross carrying amounts of financial assets as well as the default risk positions for financial guarantees and credit commitments according to rating categories are presented in the following tables:

/// GROSS CARRYING AMOUNTS FOR FINANCIAL ASSETS BY RATING CATEGORIES

EUR million	Dec. 31, 2019				
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
Default risk rating category 1 (receivables not at risk of default)	17,761	–	–	5,204	22,965
Default risk rating category 2 (receivables at risk of default)	–	–	–	0	0
Default risk rating category 3 (completely or partially defaulted receivables)	–	–	17	49	66
Total	**17,761**	**–**	**17**	**5,254**	**23,031**

EUR million	Dec. 31, 2018				
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
Default risk rating category 1 (receivables not at risk of default)	16,106	–	–	5,562	21,668
Default risk rating category 2 (receivables at risk of default)	–	–	–	0	0
Default risk rating category 3 (completely or partially defaulted receivables)	–	–	17	231	247
Total	**16,106**	**–**	**17**	**5,792**	**21,915**

/// DEFAULT RISK FOR FINANCIAL GUARANTEES AND CREDIT COMMITMENTS

EUR million	Dec. 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Default risk rating category 1 (receivables not at risk of default)	436	–	–	436
Default risk rating category 2 (receivables at risk of default)	–	–	–	–
Default risk rating category 3 (completely or partially defaulted receivables)	–	–	–	–
Total	**436**	**–**	**–**	**436**

EUR million	Dec. 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Default risk rating category 1 (receivables not at risk of default)	397	–	–	397
Default risk rating category 2 (receivables at risk of default)	–	–	–	–
Default risk rating category 3 (completely or partially defaulted receivables)	–	–	–	–
Total	**397**	**–**	**–**	**397**

37.3 / *LIQUIDITY RISKS*

Liquidity risks arise from financial liabilities if current payment obligations can no longer be met. A liquidity forecast based on a fixed planning horizon coupled with available yet unused lines of credit ensures adequate liquidity within the Audi Group at all times.

Local cash funds in certain countries such as China are only available to the Audi Group for cross-border transactions subject to exchange controls transactions. There are no significant restrictions over and above these.

// MATURITY ANALYSIS OF UNDISCOUNTED CASH OUTFLOWS FROM FINANCIAL INSTRUMENTS

EUR million	Total	Residual contractual maturities		
	Dec. 31, 2019	up to 1 year	between 1 and 5 years	over 5 years
Financial liabilities	1,344	272	368	704
Trade payables	7,106	7,106	–	–
Other financial liabilities and obligations	6,140	6,132	7	1
Derivative financial instruments	28,043	13,423	14,377	243
Undiscounted cash outflows	**42,633**	**26,933**	**14,752**	**948**

EUR million	Total	Residual contractual maturities		
	Dec. 31, 2018	up to 1 year	between 1 and 5 years	over 5 years
Financial liabilities	427	109	99	220
Trade payables	8,565	8,565	0	–
Other financial liabilities and obligations	3,570	3,563	2	5
Derivative financial instruments	27,415	15,820	11,595	–
Undiscounted cash outflows	**39,977**	**28,058**	**11,695**	**224**

The derivatives include both cash outflows from derivative financial instruments with a negative fair value and cash outflows from derivatives with a positive fair value for which gross settlement has been agreed. Cash outflows from derivatives concluded by offsetting transactions are also taken into account.

The cash outflows from derivatives for which a gross settlement has been agreed are offset by cash inflows. These cash inflows are not presented in the maturity analysis. Had the cash inflows also been taken into account, the cash outflows would have been significantly lower in the analysis by maturity date. This applies equally for hedging relationships which were concluded by offsetting transactions.

The Audi Group has provided various financial guarantees, mainly in the form of sureties. As of December 31, 2019, the maximum permitted use of financial guarantees amounted to EUR 264 (237) million. Financial guarantees are always assumed to be due immediately.

// COLLATERAL

The Audi Group recorded financial assets as collateral for liabilities in the amount of EUR 82 (94) million. This collateral is primarily used by contractual parties as soon as credit periods for secured liabilities are exceeded.

37.4 / *MARKET RISKS*

Given the global nature of its operations, the Audi Group is exposed to various market risks, which are described below. The individual risk types and the respective risk management measures are also described. Additionally, these risks are quantified by means of sensitivity analyses.

// HEDGING POLICY AND FINANCIAL DERIVATIVES

The market risks to which the Audi Group is exposed include, in particular, currency, fund price, commodity price and interest rate risks. As part of the risk management process, these risks are limited by entering into hedging transactions. In general, all necessary hedging measures are implemented centrally by Group Treasury of Volkswagen AG, Wolfsburg, or coordinated via Group Treasury of AUDI AG. There were no risk concentrations during the past fiscal year.

The market risks associated with derivative and non-derivative financial instruments pursuant to IFRS 7 are calculated in the Audi Group using sensitivity analyses. Changes to the risk variables within the respective market risks are used to calculate the impact on equity and on profit after tax.

/// CURRENCY RISKS

The currency risks of the Audi Group result primarily from global operations and investing activities. The measures implemented to hedge against these currency risks are defined at brand level in accordance with the Volkswagen organizational guidelines, coordinated in the Volkswagen Group and implemented by Group Treasury of Volkswagen AG.

These risks are limited by concluding appropriate hedging transactions for matching amounts and maturities. The hedging transactions are performed centrally for the Audi Group by Volkswagen AG on the basis of an agency agreement. The Audi Group additionally concludes hedging transactions of its own to a limited extent, where this helps to simplify current operations.

The hedging transactions are effected by means of marketable derivative financial instruments (forward exchange contracts and forward exchange options). Contracts are concluded exclusively with first-rate national and international banks whose creditworthiness is regularly examined by leading rating agencies and by Central Risk Management at Volkswagen AG.

For the purpose of managing currency risks, exchange rate hedging in the 2019 fiscal year primarily focused on the U.S. dollar, the British pound, and the Chinese renminbi.

Currency risks pursuant to IFRS 7 arise as a result of financial instruments that are of a monetary nature and that are denominated in a currency other than the functional currency. Exchange rate differences from the translation of financial statements into the Group currency (translation risk) are disregarded. Within the Audi Group, the principal non-derivative financial instruments (cash, receivables, securities held and debt instruments held, interest-bearing liabilities, interest-free liabilities) are either denominated directly in the functional currency or substantially transferred to the functional currency through the use of derivatives. Above all, the generally short maturity of the instruments also means that potential exchange rate movements have only a very minor impact on profit or equity.

Currency risks are measured using sensitivity analyses, during which the impact on profit after tax and equity of hypothetical changes to relevant risk variables is assessed. All non-functional currencies in which the Audi Group employs financial instruments are fundamentally treated as relevant risk variables.

The periodic effects are determined by applying the hypothetical changes in the risk variables to the inventory of financial instruments on the reporting date. It is assumed for this purpose that the inventory on the reporting date is representative of the entire year. Movements in the exchange rates of the underlying currencies for the hedged item affect the fair value of these hedging transactions and the cash flow hedge reserve in equity.

/// FUND PRICE RISKS

The securities fund created using surplus liquidity is exposed to an equity and bond price risk that may arise from fluctuations in stock market prices, indices and market interest rates. The change in bond prices resulting from a change in market interest rates, and the measurement of currency risks and other interest rate risks from the securities fund, is quantified separately in the corresponding notes on “Currency risks” and “Interest rate risks.”

Risks from securities funds are generally countered by maintaining a broad mix of products, issuers and regional markets when making investments, as stipulated in the investment guidelines. Where necessitated by the market situation, currency hedges are also used. Such measures are coordinated by AUDI AG in agreement with Group Treasury of

Volkswagen AG and implemented at operational level by risk management of the securities funds.

Fund price risks are measured within the Audi Group in accordance with IFRS 7 using sensitivity analyses. Hypothetical changes to risk variables as of the reporting date are examined to calculate their impact on the prices of the financial instruments in the funds. Stock prices, exchange rates and interest rates are particularly relevant risk variables in the case of fund price risks.

/// COMMODITY PRICE RISKS

Commodities are subject to the risk of fluctuating prices given the volatile nature of the commodity markets. Commodity futures are used to limit these risks. The hedging measures are coordinated regularly between AUDI AG and Volkswagen AG in accordance with the existing Volkswagen organizational guidelines. The hedging transactions are performed centrally for AUDI AG by Volkswagen AG on the basis of an agency agreement. The results from hedging contracts are credited or debited to the Audi Group on maturity.

Hedging relates to significant quantities of the commodities aluminum, copper and nickel. Contracts are concluded exclusively with first-rate national and international banks whose creditworthiness is regularly examined by leading rating agencies and by Central Risk Management at Volkswagen AG.

Commodity price risks are also calculated using sensitivity analyses. Hypothetical changes in listed prices are used to quantify the impact of changes in value from hedging activities on profit after income tax.

/// INTEREST RATE RISKS

Interest rate risks stem from changes in market interest rates, above all for medium and long-term variable interest rate assets and liabilities.

The Audi Group limits interest rate risks, particularly with regard to the granting of loans and credit, by agreeing fixed interest rates and also through interest rate hedging instruments.

The risks associated with changing interest rates are presented pursuant to IFRS 7 using sensitivity analyses. These involve presenting the effects of hypothetical changes in market interest rates as of the reporting date on interest payments, interest income and interest expenses, and, where applicable, equity and profit after tax.

/// RESIDUAL VALUE RISKS

Residual value risks arise from hedging arrangements with dealers or partner companies according to which, in the context of buyback obligations resulting from concluded lease agreements, effects on profit caused by market-related fluctuations in residual values are partly borne by the Audi Group.

The hedging arrangements are based on residual value recommendations, as published by the Residual Value Committee at the time of the contract being concluded, and on current dealer purchase values on the market at the time of the residual value hedging being settled. The residual value recommendations are based on the forecasts provided by various independent institutions using transaction prices.

Residual value risks are also calculated using sensitivity analyses. Hypothetical changes in the market prices of used cars as of the reporting date are used to quantify the impact on profit after tax.

// QUANTIFYING MARKET RISKS BY MEANS OF SENSITIVITY ANALYSES

/// CURRENCY RISKS

If the functional currencies had in each case increased or decreased in value by 10 percent compared with the other currencies as of the reporting date, the following major effects on the hedging provision in equity and on profit after tax would have resulted with regard to the exchange rates referred to below.

EUR million	Dec. 31, 2019		Dec. 31, 2018	
	+10%	– 10%	+10%	– 10%
EUR/CHF				
Hedging reserve	118	– 115	96	– 94
Profit after tax	– 1	1	0	0
EUR/CNY				
Hedging reserve	237	– 237	177	– 177
Profit after tax	– 4	4	– 8	8
EUR/GBP				
Hedging reserve	461	– 461	342	– 342
Profit after tax	– 34	34	– 40	40
EUR/JPY				
Hedging reserve	133	– 133	110	– 110
Profit after tax	– 1	1	– 1	1
EUR/CAD				
Hedging reserve	134	– 134	65	– 65
Profit after tax	– 7	7	– 12	12
EUR/USD				
Hedging reserve	529	– 534	636	– 617
Profit after tax	– 258	258	– 193	193

/// *OTHER MARKET RISKS*

The measurement of other market risks pursuant to IFRS 7 is also carried out using sensitivity analyses within the Audi Group. Hypothetical changes to risk variables as of the reporting date are examined to calculate their impact on the corresponding balance sheet items and on profit after tax.

Depending on the type of risk, there are various possible risk variables (primarily share prices, commodity prices, market interest rates and market prices of used cars).

The sensitivity analyses carried out enable the following other market risks to be quantified for the Audi Group:

EUR million	2019		2018	
	+10%	– 10%	+10%	– 10%
Fund price risks				
Effects on profit after tax due to change in share prices	37	– 74	9	– 18
Commodity price risks				
Effects on profit after tax due to change in commodity prices	180	– 180	95	– 95
Residual value risks of used cars				
Effects on profit after tax due to change in market prices	279	– 279	260	– 260
	+100 bps	– 100 bps	+100 bps	– 100 bps
Interest rate change risks				
Effects on equity due to change in market interest rate	2	– 2	– 4	4
Effects on profit after tax due to change in market interest rate	53	– 38	84	– 11

37.5 / *METHODS OF MONITORING THE EFFECTIVENESS OF HEDGING RELATIONSHIPS*

Within the Audi Group, and with the introduction of IFRS 9, the effectiveness of hedging relationships is primarily evaluated prospectively using the critical terms match method.

The retrospective evaluation of the effectiveness of hedges involves a test in the form of the dollar offset method. In the case of the dollar offset method, the changes in value of the hedged item, expressed in monetary units, are compared with the changes in value of the hedging transaction, expressed in monetary units. For this, a comparison is made of the cumulative changes in value for the designated spot component of the hedging transaction and hedged item. If there is no critical terms match, then the same approach is used for the non-designated components.

// NOMINAL AMOUNTS OF DERIVATIVE FINANCIAL INSTRUMENTS

EUR million	Nominal amounts				
	Dec. 31, 2019	Remaining term of up to 1 year	Remaining term of between 1 and 5 years	Remaining term over 5 years	Dec. 31, 2018
Hedging of currency risk					
Forward exchange contracts	25,161	12,709	12,453	–	21,045
Forward exchange contracts CAD	1,943	1,027	915	–	945
Forward exchange contracts CHF	1,593	465	1,129	–	1,286
Forward exchange contracts CNY	3,432	2,216	1,216	–	2,561
Forward exchange contracts GBP	6,630	3,298	3,331	–	4,913
Forward exchange contracts JPY	1,874	562	1,313	–	1,553
Forward exchange contracts USD	7,490	3,405	4,085	–	8,183
Forward exchange contracts other currencies	2,199	1,735	464	–	1,603
Forward exchange options	905	831	74	–	3,425
Forward exchange options CHF	166	92	74	–	160
Forward exchange options USD	739	739	–	–	3,266
Cash flow hedges	**26,067**	**13,540**	**12,526**	**–**	**24,470**
Hedging of interest risk					
Interest swaps	1,202	990	164	48	874
Hedging of currency risk					
Forward exchange contracts	4,558	1,873	2,412	273	6,006
Forward exchange contracts CNY	–	–	–	–	325
Forward exchange contracts HUF	831	163	665	3	572
Forward exchange contracts MXN	–	–	–	–	1,519
Forward exchange contracts USD	3,409	1,393	1,747	270	2,607
Forward exchange contracts other currencies	318	318	–	–	982
Forward exchange options	676	676	–	–	–
Hedging of commodity price risk					
Commodity futures	2,794	777	1,747	270	1,524
Aluminum commodity futures	1,430	592	838	–	1,121
Copper commodity futures	382	91	290	–	305
Nickel commodity futures	956	77	609	270	62
Other commodity futures	26	17	10	–	36
Other derivatives	**9,230**	**4,316**	**4,323**	**591**	**8,404**

The nominal amounts of the presented cash flow hedges for currency risks represent the total of all buying and selling prices on which the transactions are based. The derivatives concluded as part of offsetting transactions which are compensated for by the original hedging relationships are taken into account in the respective nominal amounts. The respective nominal amounts would be lower if they were not taken into account.

In addition to derivatives used for currency, interest and commodity price hedging, as of the reporting date there were options and other derivatives on equity instruments with a nominal amount of EUR 10,207 (3,674) million as well as derivatives for hedging credit defaults with a nominal amount of EUR 15,163 (10,891) million. The derivatives mentioned above have remaining terms of up to one year.

The derivative financial instruments used have a maximum hedging term of five years.

Existing cash flow hedges in the nominal amount of EUR 15 (45) million were discontinued because of a reduction in the projections. In the reporting period, EUR 2 million was transferred from the cash flow hedge reserve to the financial result. This had a negative impact on earnings. In the previous year, only minor amounts were recognized on the financial result with a negative impact on earnings.

The average hedging rates for currency hedging instruments are shown in the following table:

	2019	2018
Forward exchange contracts		
EUR/CHF	1.09	1.10
EUR/CNY	8.07	8.08
EUR/GBP	0.87	0.84
EUR/JPY	121.37	123.23
EUR/USD	1.19	1.19
Forward exchange options		
EUR/CHF	1.03	1.03
EUR/USD	1.15	1.15

// DISCLOSURES ON CASH FLOW HEDGES AND THE ASSOCIATED HEDGED ITEMS

Hedging instruments are put in place to combat the risk of fluctuating future cash flows. The following table shows the nominal amounts, fair values and ineffectiveness of hedging instruments created in cash flow hedges.

EUR million	Dec. 31, 2019			
	Nominal amounts	Other financial assets	Other financial liabilities	Fair value change to determine ineffectiveness
Hedging of currency risk				
Forward exchange contracts	25,161	200	561	234
Forward exchange options	905	2	1	–

EUR million	Dec. 31, 2018			
	Nominal amounts	Other financial assets	Other financial liabilities	Fair value change to determine ineffectiveness
Hedging of currency risk				
Forward exchange contracts	21,045	700	213	991
Forward exchange options	3,425	32	16	3

The following table shows the fair value changes of the hedged items. The reserve for cash flow hedges is also shown for comparison.

EUR million	Dec. 31, 2019		
		Reserve for	
	Change in the fair value of the hedged items	Active cash flow hedges	Discontinued cash flow hedges
Hedging of currency risk			
Designated components	–234	222	–
Non-designated components		–469	–
Deferred taxes		74	–
Total		**–173**	**–**

EUR million	Dec. 31, 2018		
		Reserve for	
	Change in the fair value of the hedged items	Active cash flow hedges	Discontinued cash flow hedges
Hedging of currency risk			
Designated components	–1,045	987	–12
Non-designated components		–296	–5
Deferred taxes		–206	5
Total		**485**	**–12**

38 / LEASES

38.1 / RECOGNITION BY THE LESSEE

The Audi Group acts as lessee in lease arrangements in many areas of the company. These transactions mainly comprise the leasing of office equipment, real estate and other production assets. The leases are negotiated individually and contain a variety of contractual conditions. Right-of-use assets are recognized on the balance sheet in the following items and have developed as follows:

EUR million	Right-of-use assets for land, land rights and buildings, including buildings on third-party land	Right-of-use assets for technical equipment and machinery	Right-of-use assets for other plant, operating and office equipment	Right-of-use assets for investment property	Total right-of-use assets
Costs as of Jan. 1, 2019	**572**	**2**	**20**	**271**	**865**
Changes in scope of consolidated companies	0	–	0	–	1
Currency changes	5	0	0	2	7
Additions	204	3	24	4	235
Disposals	45	0	4	12	61
Assets classified as held for sale	14	–	0	–	14
Costs as of Dec. 31, 2019	**721**	**5**	**41**	**265**	**1,032**
Adjustments as of Jan. 1, 2019	**6**	**–**	**3**	**60**	**69**
Changes in scope of consolidated companies	–	–	–	–	–
Currency changes	0	0	0	0	0
Additions to accumulated amortization	98	2	14	12	125
Disposals	2	0	0	3	6
Assets classified as held for sale	0	–	0	–	0
Adjustments as of Dec. 31, 2019	**102**	**2**	**17**	**69**	**189**
Carrying amount Dec. 31, 2019	**620**	**3**	**24**	**195**	**843**

In the fiscal year, income of EUR 17 million was received from the subleasing of right-of-use assets of property, plant and equipment.

When assessing the lease term underlying the lease liability, the Audi Group uses a best estimate of the exercise of extension and termination options. The estimate is updated if there is a material change in the conditions on which the estimate is based, or if the lease is modified. The following tables show the allocation of the lease liabilities on the balance sheet and give an overview of the contractual due dates of these liabilities:

EUR million	Dec. 31, 2019
Non-current lease liabilities	778
Current lease liabilities	117
Carrying amount of lease liabilities	**895**

EUR million	Remaining contractual obligations			
	up to 1 year	1 to 5 years	over 5 years	Dec. 31, 2019
Liabilities from lease contracts	117	245	533	895

In the 2019 fiscal year, interest expenses for lease liabilities amounted to EUR 37 million.

No right-of-use assets are capitalized for low-value and short-term leases. In the reporting period, expenses of EUR 37 million were incurred for low-value asset leases. In addition, expenses were incurred for short-term leases, which totaled EUR 40 million. There were no expenses for variable lease payments in the reporting period.

Overall, the cash outflow for leases where the Audi Group was the lessee was EUR 226 million.

The following table contains an overview of the possible future cash outflows that were not included in the measurement of the lease liabilities:

EUR million	2019
Possible cash outflows due to	
Variable lease payments	–
Residual value guarantees	–
Extension options	– 583
Termination options	0
Leases that have not yet commenced (contractual obligation)	– 195
Other restrictions or covenants in connection with leases	–
Total	**– 779**

38.2 / *RECOGNITION BY THE LESSOR*

In its function as lessor, the Audi Group uses both finance leases and operating leases. These transactions comprise both vehicles and real estate leased under IAS 40 (Investment Property).

The Audi Group takes account of the full risk of default on lease receivables through loss allowances in accordance with the provisions of IFRS 9. The assets underlying the leases are secured through variable lease payments, which are measured according to the level of use.

// OPERATING LEASES

The following table shows the non-current assets leased under operating leases. Note 21 contains information on current assets leased.

EUR million	Land, land rights and buildings, including buildings on third-party land leased under operating leases	Technical equipment and machinery leased under operating leases	Other plant, operating and office equipment under operating leases	Investment property under operating leases	Total
Costs as of Jan. 1, 2019	**–**	**–**	**14**	**419**	**433**
Currency changes	–	–	–	2	2
Additions	–	–	1	4	5
Disposals	–	–	1	12	13
Costs as of Dec. 31, 2019	**–**	**–**	**14**	**413**	**427**
Adjustments as of Jan. 1, 2019	**–**	**–**	**3**	**87**	**90**
Currency changes	–	–	–	1	1
Additions to accumulated amortization	–	–	3	14	17
Disposals	–	–	0	3	3
Adjustments as of Dec. 31, 2019	**–**	**–**	**6**	**99**	**105**
Carrying amount Dec. 31, 2019	**–**	**–**	**8**	**314**	**322**

The following cash inflows are expected in the coming years from anticipated outstanding, non-discounted operating lease payments:

	2020	2021	2022	2023	2024	From 2025	Total
Lease payments to be received	96	34	25	23	18	176	373

The income from operating leases is composed as follows:

EUR million	2019
Income from leases	218
Income from variable lease payments	0
Total	**218**

// *FINANCE LEASES*

The gains and losses arising from the sale of the underlying assets from finance leases, the interest income from net investment in the leases, and the income from variable lease payments are shown in the following table:

EUR million	2019
Selling profit	–
Selling loss	– 3
Interest income from the net investment in the lease	1
Income from variable lease payments	–
Total	**–1**

The following table shows the reconciliation from the lease payments to the net investment value:

EUR million	Dec. 31, 2019
Undiscounted lease payments	**30**
Unguaranteed residual carrying amount	–
Unearned interest income	– 8
Loss allowance for lease receivables	0
Other	–
Net investment value	**21**

The following payments are expected in the coming years from outstanding, non-discounted finance lease payments:

	2020	2021	2022	2023	2024	From 2025	Total
Lease payments to be received	2	1	1	1	1	22	30

39 / *CASH FLOW STATEMENT*

The cash flow statement details the payment streams for both the 2019 fiscal year and the previous year, categorized according to cash inflows and outflows from operating activities, investment and financing activities. The effects of changes in foreign exchange rates on cash flows are presented separately.

Cash flow from operating activities includes all cash flows in connection with ordinary business activities and is presented using the indirect calculation method. Starting from the profit before profit transfer and income tax, all income and expenses with no impact on cash flow (primarily write-downs) are excluded.

Cash flow from operating activities in the 2019 fiscal year included payments for interest received amounting to EUR 127 (121) million and for interest paid amounting to EUR 42 (54) million. Dividends and profit transfers totaling EUR 312 (712) million were recognized. The “Income tax payments” item primarily comprises payments made to Volkswagen AG on the basis of the single-entity relationship for tax purposes in Germany, as well as payments to foreign tax authorities.

The item “Other non-cash income and expenses” primarily includes non-cash income and expenses from the measurement of derivative financial instruments and securities.

Cash flow from investing activities includes capitalized development costs as well as additions to property, plant and equipment, investment property, other intangible assets, long-term financial investments and non-current loans. The proceeds from the disposal of assets, the proceeds from the disposal of participations, and the change in securities and fixed deposits are similarly reported in cash flow from investing activities.

The cash outflows for the acquisition of subsidiaries and changes in capital at non-consolidated subsidiaries were offset by higher cash inflows from initial consolidation of subsidiaries in the 2019 fiscal year. This resulted in a net cash inflow of EUR 6 million in 2019. An outflow of EUR 50 million was recorded in the previous year. The acquisition of investments in associates and other participations and changes in capital resulted in an outflow of EUR 87 (398) million. In the previous year, EUR 328 million was used for the purchase of shares in SAIC Volkswagen Automotive Company Ltd., Shanghai (China).

The deconsolidation of multi-brand sales companies resulted in a reduction of EUR 419 million in cash and cash equivalents. Changes in capital at participations resulted in a cash inflow of EUR 3 million in the fiscal year. The cash inflows in the amount of EUR 585 million in the previous year primarily resulted from the sale of shares in FAW-Volkswagen Automotive Company, Ltd., Changchun (China) and in There Holding B.V., Rijswijk (Netherlands).

Cash flow from financing activities includes cash used for the transfer of profit as well as changes in financial liabilities. Due to the first-time application of IFRS 16, lease payments increased to EUR 114 (10) million. In the previous year, inflows from capital contributions from non-controlling interests totaling EUR 43 million were also included.

The changes in the balance sheet items that are presented in the cash flow statement cannot be derived directly from the balance sheet because the effects of currency translation and of changes in the group of consolidated companies partly do not affect cash and are therefore not included in the cash flow statement.

// RECONCILIATION OF CASH AND CASH EQUIVALENTS

EUR million	Dec. 31, 2019	Dec. 31, 2018
Cash funds as per balance sheet	11,731	9,309
Cash funds classified as held for sale	115	–
Currently due fixed deposits with an investment period > 3 months	– 100	– 759
Cash and cash equivalents as per cash flow statement (bank assets and cash deposits with maturities of no more than three months)	**11,747**	**8,550**

Only the short-term fixed deposits whose original investment term is no more than three months are included in the cash and cash equivalents in accordance with the cash flow statement. Cash and cash equivalents include EUR 10,644 (7,716) million relating to the cash pooling arrangements with the Volkswagen Group.

Some of the fixed deposits and loans extended included in gross liquidity have been entered into with related parties.

The allocation of the change in financial liabilities to cash and non-cash items is shown in the following table:

EUR million	Lease liabilities	Miscellaneous financial liabilities	**Financial liabilities**	Other financial assets and liabilities	**Financial assets and liabilities in financing activities**
Position as of Dec. 31, 2018	**311**	**116**	**427**	**–**	**427**
Changes in accounting policy to reflect IFRS 16	535	–	**535**	–	**535**
Deconsolidation of the multi-brand sales companies	– 13	–	**– 13**	–	**– 13**
Position as of Jan. 1, 2019	**832**	**116**	**948**	**–**	**948**
Cash changes	– 114	10	**– 104**	–	**– 104**
Non-cash currency changes	7	23	**30**	–	**30**
Non-cash changes in scope of consolidated companies	6	–	**6**	–	**6**
Non-cash additions/measurement changes	179	4	**183**	–	**183**
Position as of Dec. 31, 2019	**910**	**153**	**1,063**	**–**	**1,063**
Classified as held for sale	– 14	–	**– 14**	–	**– 14**
Position as of Dec. 31, 2019, according to balance sheet	**895**	**153**	**1,048**	**–**	**1,048**

40 / *CONTINGENT LIABILITIES*

EUR million	Dec. 31, 2019	Dec. 31, 2018
Contingent liabilities from sureties	7	6
Other contingent liabilities	117	69
Contingent liabilities	**124**	**74**

Contingent liabilities are unrecognized contingencies whose amount corresponds to the likely utilization as of the reporting date. Financial guarantees as defined under IFRS 7 are reported under note 39.3, “Liquidity risks.”

Like many other car manufacturers, the Audi Group cannot ignore the risks in connection with potentially defective airbags. It is therefore still not possible to rule out further recalls. Further information on the situation pursuant to IAS 37.86 is currently not available due to ongoing technical investigations and cooperation with the authorities.

As expanded on in note 33, “Other provisions,” there are no contingent liabilities in connection with the four-cylinder diesel engines.

In the 2019 fiscal year, the Audi Group made further progress with regard to the diesel issue in terms of approvals for technical measures as well as with regard to proceedings concluded and agreements reached with various authorities and interest groups. Despite the progress in dealing with the diesel issue, there is still ongoing litigation in some countries in the form of class or individual actions as well as other proceedings. In view of the still-ongoing process of clarifying the facts as well as the complexity of the individual factors involved and the ongoing consultations with the government agencies, the provisions created for the diesel issue and the further latent legal risks are to some extent subject to substantial estimation risks. Some of the above-mentioned cases are still at an early stage. In a number of instances, the basis for claims is yet to be specified by the plaintiffs and/or there is insufficient information about the number of plaintiffs or amounts claimed. It is therefore not yet possible to quantify the potential financial impact. For information regarding possible financial burden arising from the diesel issue, please refer to the disclosures under “Notes on the diesel issue” in the general information in the notes to the consolidated financial statements.

No information was provided pursuant to IAS 37.92 regarding estimates of the financial impact or regarding uncertainties related to the amount of or due date of contingent liabilities connected with the anti-trust investigations of the European Commission in order not to adversely affect the outcome of the proceedings and the interests of the company.

41 / *LITIGATION*

Companies included in the Audi Group become involved in legal disputes and official proceedings in the course of their operating activities. Such legal disputes and procedures are particularly likely to occur in relation to suppliers, dealers, customers or employees. They may result in payment or other obligations for the companies involved. Particularly in cases where U.S. customers assert claims relating to vehicle faults, whether individually or in the form of class actions, very expensive measures may be required and may necessitate the payment of significant amounts in compensation or penalty payments. U.S. patent infringements are also associated with similar risks. Other provisions take account of such risks to the extent that an outflow of resources is likely to occur in the future and can be reliably estimated. Legal disputes frequently involve complex legal issues. Consequently, assumptions must be made regarding the likelihood of an outflow of resources, the amount of any such outflow and the duration of the case. This means that the recognition and measurement of provisions to cover legal risks involve a degree of uncertainty.

For information regarding the legal risks arising from the diesel issue and further litigation, please refer to the disclosures under “Notes on the diesel issue” in the general information in the notes to the consolidated financial statements.

There are no further ongoing or prospective legal or arbitration proceedings that could have a significant influence on the economic position.

42 / *CHANGE OF CONTROL AGREEMENTS*

Change of control clauses are contractual agreements between a company and third parties to provide for legal succession should there be a direct or indirect change in the ownership structure of any party to the contract.

AUDI AG is party to the shareholder agreement concerning There Holding B.V. which is the majority shareholder of the HERE Group. Under the shareholder agreement, in the event of a change of control at a party to the agreement, that party must offer the shares it holds directly or indirectly in There Holding B.V. to the other shareholders for purchase. In the case of AUDI AG, a change of control occurs if a person acquires or loses control over AUDI AG, wherein control is defined as (i) holding or having control over more than 50 percent of the voting rights, (ii) the scope for controlling more than 50 percent of the voting rights that can be exercised at Annual General Meetings on all or virtually all matters, or (iii) the right to determine the majority of the members of the Board of Management or Supervisory Board. Furthermore, a change of control occurs if competitors of the HERE Group or certain potential competitors of the HERE Group from the technology industry acquire at least 25 percent of AUDI AG. If none of the other shareholders takes on these shares, the other shareholders have the right to resolve the dissolution of There Holding B.V.

The other significant contractual agreements between the Audi Group and third parties do not contain any change of control clauses in the event of a change in the ownership structure of AUDI AG or its subsidiaries.

43 / *OTHER FINANCIAL OBLIGATIONS*

EUR million	Due date Dec. 31, 2019				Due date Dec. 31, 2018	
	Within 1 year	1 to 5 years	Over 5 years	Total	Over 1 year	Total
Purchase orders for property, plant and equipment	1,089	356	–	1,445	619	2,396
Purchase orders for intangible assets	195	23	–	218	6	169
Purchase orders for services	306	11	25	342	58	458
Obligations from rental and lease agreements	20	53	143	215	701	866
Miscellaneous financial obligations	406	233	162	801	304	870
Other financial obligations	**2,015**	**675**	**331**	**3,021**	**1,688**	**4,758**

Supply contracts are in place for series production material. Binding orders are placed and contracts are activated for the material as such material is needed on the basis of the specified production and sales schedule.

The decline in obligations from rental and lease agreements is mainly due to initial application of IFRS 16. Amounts recognized in lease liabilities in accordance with IFRS 16 in the reporting period were included in other financial obligations in the previous year.

44 / *DISCONTINUED OPERATIONS*

There are no plans to discontinue or cease business operations as defined by IFRS 5.

45 / *PERSONNEL COSTS*

EUR million	2019	2018
Wages and salaries	6,541	6,061
Social insurance and expenses for retirement benefits and support payments	1,357	1,275
Personnel costs	**7,898**	**7,336**

46 / TOTAL AVERAGE NUMBER OF EMPLOYEES FOR THE YEAR

	2019	2018
Domestic companies [1]	60,083	59,754
Foreign companies	27,669	28,702
Employees	**87,752**	**88,456**
Apprentices	2,585	2,582
Employees of Audi Group companies	**90,337**	**91,038**
Staff employed from other Volkswagen Group companies not belonging to the Audi Group	446	439
Workforce Audi Group	**90,783**	**91,477**

1) Of these employees, 1,945 (1,732) were in the passive stage of their partial retirement.

47 / REMUNERATION BASED ON PERFORMANCE SHARES (SHARE-BASED PAYMENT)

The remuneration system for the members of the Board of Management was altered at the end of 2018 by a resolution of the Supervisory Board, with effect from January 1, 2019. The new remuneration system of the Board of Management comprises fixed and variable components. The variable remuneration consists of a performance-related annual bonus with a one-year assessment period and a long-term incentive in the form of a performance share plan with a forward-looking three-year term (share-based payment).

Since the end of 2018, members of top management have also been beneficiaries of the performance share plan. They were granted performance shares for the first time in 2019. At the end of 2019, the group of beneficiaries was extended to include all non-pay-scale employees below top management level. These beneficiaries were granted performance shares for the first time at the start of 2020. This performance share plan essentially works in the same way as the performance share plan granted to members of the Board of Management. When the performance share plan was introduced, the members of top management were guaranteed a minimum bonus for the first three years, based on their compensation in 2018, while all other beneficiaries were guaranteed a bonus for the first three years based on their compensation in 2019.

Each performance period of the performance share plan has a term of three years. At the time the long-term incentive is granted, the annual target amount under the long-term incentive is converted, on the basis of the initial reference price of Volkswagen's preferred shares, into performance shares and then allocated to the respective member of the Board of Management as a pure calculation position.

For members of the Board of Management and top management, the number of performance shares is set on the basis of a three-year, forward-looking performance period and corresponds to the degree of target achievement for the annual earnings per Volkswagen preferred share. For all other beneficiaries, it is determined for a three-year performance period with a forward-looking period of one year. Contrary to this, determination will initially be based in 2020 on a one-year forward-looking performance period and in 2021 on a two-year performance period with a forward-looking period of one year. Settlement is in cash at the end of the performance period. The payment corresponds to the number of issued performance shares multiplied by the closing reference price at the end of the performance period plus a dividend equivalent. The payout amount under the performance share plan is limited to 200 percent of the target amount.

// SHARE-BASED PAYMENT FOR MEMBERS OF THE BOARD OF MANAGEMENT

EUR thousand	2019
Total expense for the period	199
Total carrying amount of the obligation	199
Intrinsic value of the liabilities	–
Fair value at the grant date	328
Number of performance shares granted (quantity)	2,550
of which: granted during the reporting period (quantity)	*2,550*

// SHARE-BASED PAYMENT FOR MEMBERS OF TOP MANAGEMENT

EUR thousand	2019
Total expense for the period	14,487
Total carrying amount of the obligation	14,487
Intrinsic value of the liabilities	12,543
Fair value at the grant date	10,453
Number of performance shares granted (quantity)	81,255
of which: granted during the reporting period (quantity)	*81,255*

// SHARE-BASED PAYMENT FOR NON-PAY-SCALE EMPLOYEES BELOW TOP MANAGEMENT LEVEL

Assuming 100 percent achievement of the targets agreed in each case, the target amount for all other beneficiaries is EUR 118 million.

48 / RELATED PARTY DISCLOSURES

Related parties as defined in IAS 24 are:

- the parent company, Volkswagen AG, Wolfsburg, and its subsidiaries and material participations outside the Audi Group,
- other parties (individuals and companies) that could be influenced by the reporting entity or that could influence the reporting entity, such as the members of the Board of Management and Supervisory Board of AUDI AG,
- the members of the Board of Management and Supervisory Board of Volkswagen AG,
- associates and their subsidiaries,
- non-consolidated subsidiaries.

At 53.1 percent, Porsche Automobil Holding SE, Stuttgart, held the majority of the voting rights in Volkswagen AG as of the reporting date. The creation of rights of appointment for the State of Lower Saxony was resolved at the Extraordinary General Meeting of Volkswagen AG on December 3, 2009. As a result, Porsche Automobil Holding SE can no longer appoint the majority of the members of the Supervisory Board of Volkswagen AG for as long as the State of Lower Saxony holds at least 15 percent of Volkswagen AG's ordinary shares. However, Porsche Automobil Holding SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore also classified as a related party.

All business transactions with related parties have been conducted on the basis of international comparable uncontrolled price methods pursuant to IAS 24, according to the terms that customarily apply to outside third parties. The goods and services procured from related parties primarily include supplies for production and supplies of genuine parts, as well as development, transportation, financial and distribution services, and, to a lesser extent, design and other services. The volume of business transacted for related parties mainly comprises sales of new and used cars, powertrains and components, and allocation of cash and cash equivalents in the form of loans, fixed deposits and overnight deposits.

The cash funds of the Audi Group are in large part held by or invested in the Volkswagen Group. All transactions are processed on market terms.

48.1 / BUSINESS RELATIONS WITH VOLKSWAGEN AG AND WITH OTHER SUBSIDIARIES AND PARTICIPATIONS NOT BELONGING TO THE AUDI GROUP

EUR million	2019	2018
Goods and services supplied to		
Volkswagen AG	6,593	6,544
Volkswagen AG subsidiaries and other participations not belonging to the Audi Group	14,157	15,252
Goods and services received from		
Volkswagen AG	3,431	7,144
Volkswagen AG subsidiaries and other participations not belonging to the Audi Group	6,970	8,661
Receivables from		
Volkswagen AG	6,887	7,595
Volkswagen AG subsidiaries and other participations not belonging to the Audi Group	1,643	2,769
Obligations to		
Volkswagen AG	7,016	4,224
Volkswagen AG subsidiaries and participations not belonging to the Audi Group	6,023	8,789
Contingent liabilities to		
Volkswagen AG	–	–
Volkswagen AG subsidiaries and participations not belonging to the Audi Group	89	94
Collateral posted with		
Volkswagen AG	–	–
Volkswagen AG subsidiaries and participations not belonging to the Audi Group	81	93

The reduction in goods and services received from Volkswagen AG as well as from Volkswagen AG subsidiaries and other participations not belonging to the Audi Group is mainly attributable to the deconsolidation of the multi-brand sales companies.

Receivables include loans in the amount of EUR 5,199 (5,330) million to Volkswagen AG, Wolfsburg, and EUR 152 (399) million to subsidiaries and participations of Volkswagen AG that do not belong to the Audi Group.

As of December 31, 2019, sales of receivables to subsidiaries of Volkswagen AG that do not belong to the Audi Group amounted to EUR 984 (2,061) million.

Receivables from other subsidiaries and participations of Volkswagen AG not belonging to the Audi Group were impaired by the amount of EUR 1 (1) million. Trade receivables do not contain cash and cash equivalents invested within the framework of cash pooling. In addition, loss allowances for receivables from Volkswagen AG as well as from subsidiaries and participations of Volkswagen AG not belonging to the Audi Group were recognized in the amount of EUR 37 (83) million in the year under review, based on the expected credit loss model of IFRS 9. In the year under review, the Audi Group made capital contributions of EUR 111 million to related parties.

The possibility of a claim arising from contingencies is not anticipated.

There were limited business relations with Porsche Automobil Holding SE during the past fiscal year.

48.2 / *BUSINESS RELATIONS WITH SUBSIDIARIES AND ASSOCIATES OF THE AUDI GROUP*

EUR million	Goods and services supplied		Goods and services received	
	2019	2018	2019	2018
Associates and joint ventures	11,646	9,484	656	388
Non-consolidated subsidiaries	49	69	181	190

EUR million	Receivables from		Obligations to	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Associates and joint ventures	1,362	998	1,005	775
Non-consolidated subsidiaries	141	136	72	154

As of December 31, 2019, there were sureties totaling EUR 166 (152) million in favor of associates, joint ventures and non-consolidated subsidiaries. The possibility of a claim arising from contingencies is not anticipated. Irrevocable credit commitments to non-consolidated subsidiaries, associates and joint ventures total EUR 6 (93) million.

In the 2019 fiscal year, receivables from associates in the amount of EUR 26 (35) million were impaired. In addition, loss allowances based on the expected credit loss model of IFRS 9 for receivables from the above-mentioned related parties were recognized in the amount of EUR 19 (43) million in the prior year. In 2018, impaired receivables of EUR 64 million from non-consolidated subsidiaries were derecognized.

Obligations towards associates and joint ventures as well as non-consolidated subsidiaries include future obligations from existing contractual relationships. Trade receivables do not contain cash and cash equivalents invested within the framework of cash pooling.

48.3 / *BUSINESS RELATIONS WITH AND PAYMENTS TO MEMBERS OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD*

Members of the Boards of Management or Supervisory Boards of Volkswagen AG, Wolfsburg, and AUDI AG also belong to the supervisory or management boards of other companies with which the Audi Group maintains business relations. All transactions with such companies and persons are similarly conducted according to the terms that customarily apply to outside third parties. In this connection, goods and services amounting to a total value of EUR 393 (366) thousand were provided to the State of Lower Saxony and to companies in which the State of Lower Saxony holds a majority stake, and goods and services amounting to a total value of EUR 13 (24) thousand were received from them. As of December 31, 2019, liabilities to the State of Lower Saxony amounted to EUR 1 (74) thousand. As of December 31, 2019, receivables from the State of Lower Saxony amounted to EUR 10 thousand.

A list of the supervisory board mandates of members of the Board of Management and Supervisory Board of AUDI AG is presented in the 2019 Annual Financial Report of AUDI AG.

The service relationships with the members of the Boards of Management and Supervisory Boards of Volkswagen AG and AUDI AG were conducted at arm's length. As in the previous year, the volume of transactions was low. Overall, services in the amount of EUR 22 (56) thousand were rendered to this group of individuals in the reporting year. From the viewpoint of the Audi Group, no services were sourced from this group of individuals in the fiscal year or the previous year. In addition, there were only minimal receivables with respect to the Boards of Management and the Supervisory Boards of Volkswagen AG or AUDI AG in the fiscal year and the prior year. There were also no obligations in the current fiscal year or in the prior year.

The following payments were also granted for members of the Board of Management and Supervisory Board of AUDI AG in the course of their positions on executive bodies.

EUR thousand	2019	2018
Short-term benefits	19,698	19,608
Post-employment benefits	1,810	2,749
Termination benefits	–	6,001
Benefits, total	**21,508**	**28,358**

Obligations towards members of the Board of Management and Supervisory Board of AUDI AG in connection with short-term benefits amount to EUR 14,084 (13,457) thousand. Pension obligations towards members of the Board of Management also exist in the amount of EUR 50,527 (40,417) thousand. As of December 31, 2019, there were no termination benefits resulting from the expiry of contracts with members of the Board of Management. In the previous year, obligations of EUR 5,153 thousand were recognized.

The employee representatives on the Supervisory Board who are employed at AUDI AG continue to receive their salary in accordance with their employment contract. This is based on the provisions of the German Works Constitution Act and corresponds to an appropriate remuneration for the function or activity exercised in the Company. This similarly applies to representatives of executive staff.

Share-based payment is referred to in note 47, "Remuneration based on performance shares (share-based payment)." The remuneration system, as well as the details of the remuneration paid to the members of the Board of Management and Supervisory Board of AUDI AG, broken down by individual member and by component, and the information on the pension arrangements for members of the Board of Management, broken down by individual member, pursuant to Section 314, Para. 1, No. 6a), of the German Commercial Code (HGB) and the German Corporate Governance Code (DCGK) is presented in the Remuneration Report which forms part of the Combined Management Report of the Audi Group and AUDI AG.

Read more about the Remuneration Report in the ***Management Report*** *on pages 69 ff.*

49 / *AUDITOR'S FEES*

EUR thousand	2019	2018
Auditing of the financial statements	1,406	1,481
Other assurance services	108	103
Tax consultancy services	288	188
Other services	360	546
Auditor's fees	**2,161**	**2,318**

Based on the requirements of commercial law, the fees presented are those of the Group auditor.

The auditor's fees in 2019 were attributable to the audit of the consolidated financial statements and the review of the Interim Consolidated Financial Statements of AUDI AG, as well as to the audit of the annual financial statements of Group companies, and the reviews of the quarterly financial statements of AUDI AG. The extent of other assurance services performed by the auditor was insignificant. Tax consultancy services mainly relate to consulting on the utilization of state subsidies and on reorganization measures. Other services performed by the auditor during the reporting year relate to consulting services in the area of IT.

50 / *SEGMENT REPORTING*

The segmentation of business activities is based on the internal management and reporting of the Company pursuant to IFRS 8. The decision-making body for both segments with regard to the allocation of resources and the valuation of profitability is the full Board of Management.

Segment reporting is based on the economic activities of the Audi Group and is divided into the two segments of Automotive and Motorcycles. While the Motorcycles segment does not meet the quantitative thresholds set out in IFRS 8, it is reported here as a segment in its own right for information purposes.

The activities of the Automotive segment encompass the development, production, assembly and distribution of vehicles of the Audi and Lamborghini brands, as well as the accompanying accessories and spare parts business.

The activities of the Motorcycles segment include the development, production, assembly and distribution of Ducati brand motorcycles, including the accessories and spare parts business.

As a general rule, segment reporting is based on the same reporting, recognition and measurement principles as applied to the consolidated financial statements. Business relations between the companies of the segments in the Audi Group are generally based on the same prices as those agreed with third parties. Consolidation between the segments is carried out in the "Reconciliation" column. Amounts reported as investments in intangible assets, property, plant and equipment, and investment property exclude investments in right-of-use assets under leases. The central key performance indicators used to manage the Automotive and Motorcycles segments include the operating profit and the operating return on sales.

Internal reporting corresponds to external IFRS reporting. The full Board of Management regularly monitors, among others, the following financial and economic key figures:

50.1 / *REPORTING SEGMENTS*

EUR million	2019			
	Automotive	Motorcycles	Reconciliation	Audi Group
Revenue with third parties	54,964	716	–	55,680
Revenue with other segments	–	0	0	–
Revenue	**54,964**	**716**	**0**	**55,680**
Depreciation and amortization	– 4,146	– 88	–	– 4,234
Impairment losses	– 36	–	–	– 36
Reversal of impairment losses	259	–	–	259
Segment profit (operating profit)	4,481	29	–	4,509
Result from investments accounted for using the equity method	274	–	–	274
Net interest result and other financial result	439	0	–	439
Investments accounted for using the equity method	2,681	–	–	2,681
Investments in property, plant and equipment, investment property and intangible assets	3,805	71	–	3,876

EUR million	2018			
	Automotive	Motorcycles	Reconciliation	Audi Group
Revenue with third parties	58,550	699	–	59,248
Revenue with other segments	–	0	0	–
Revenue	**58,550**	**699**	**0**	**59,248**
Depreciation and amortization	– 3,486	– 81	–	– 3,567
Impairment losses	– 286	–	–	– 286
Reversal of impairment losses	4	–	–	4
Segment profit (operating profit)	3,505	25	– 1	3,529
Result from investments accounted for using the equity method	261	–	–	261
Net interest result and other financial result	570	0	–	570
Investments accounted for using the equity method	1,627	–	–	1,627
Investments in property, plant and equipment, investment property and intangible assets	5,018	69	–	5,087

The Motorcycles segment reported an operating return on sales of 4.0 (3.6) percent, taking into account additional depreciation and amortization due to the remeasurement of assets and liabilities as part of the purchase price allocation from 2012 in the amount of EUR 23 million. Adjusted to take account of these effects, the operating profit totaled EUR 52 (49) million and the operating return on sales 7.2 (7.0) percent. The Automotive segment recorded an operating return on sales of 8.2 (6.0) percent.

The operating return on sales of the Audi Group totaled 8.1 (6.0) percent.

50.2 / *RECONCILIATION STATEMENT*

EUR million	2019	2018
Segment revenue	55,680	59,249
Consolidation	0	0
Group revenue	**55,680**	**59,248**
Segment profit (operating profit)	4,509	3,530
Consolidation	–	– 1
Operating profit	4,509	3,529
Financial result	713	831
Group profit before tax	**5,223**	**4,361**

50.3 / *BY REGION*

EUR million	2019							
	Germany	Rest of Europe	Asia-Pacific	North America	South America	Africa	Effects from hedging transactions	Total
Revenue	12,763	16,752	12,874	12,549	439	322	– 20	55,680
Property, plant and equipment, intangible assets, lease assets and investment property [1]	16,230	4,843	336	1,251	4	–	–	22,663

[1] Right-of-use-assets according to IFRS 16 included.

EUR million	2018							
	Germany	Rest of Europe	Asia-Pacific	North America	South America	Africa	Effects from hedging transactions	Total
Revenue	11,870	19,931	14,915	11,140	486	289	617	59,248
Property, plant and equipment, intangible assets, lease assets and investment property	15,544	5,087	159	1,429	1	–	–	22,220

Revenue is allocated to the regions on the basis of the registered office of the external customers.

The Audi Group primarily generates revenue from the sale of cars. In addition to the Audi brand, the Automotive segment also sells vehicles of the Lamborghini brand. Ducati motorcycles and accessories are sold in the Motorcycles segment.

50.4 / *REVENUE BY SEGMENT*

EUR million	2019	2018
Audi brand	39,467	37,259
Lamborghini brand	1,743	1,316
Other Volkswagen Group brands	18	4,728
Engines, powertrains and parts deliveries	8,102	8,326
Other automotive business	5,653	6,305
Effects from hedging transactions	– 20	617
Automotive segment	**54,964**	**58,550**
Ducati brand	612	595
Other motorcycles business	103	104
Motorcycles segment	**716**	**699**
Reconciliation	0	0
Revenue	**55,680**	**59,248**

An explanation of the different types of revenue is provided under note 1, “Revenue.” The Automotive segment has key accounts with Volkswagen AG, Wolfsburg, its subsidiaries that are not part of the Audi Group and its associates, with which there exists a relationship of dependence.

50.5 / *REVENUE WITH KEY ACCOUNTS*

	2019		2018	
	EUR million	*in %*	*EUR million*	*in %*
Volkswagen AG	5,666	10	5,695	10
Volkswagen AG subsidiaries not belonging to the Audi Group	13,683	25	14,801	25
Associates	11,542	21	9,000	15

51 / *GERMAN CORPORATE GOVERNANCE CODE*

The Board of Management and Supervisory Board of AUDI AG submitted the declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) relating to the German Corporate Governance Code on November 20, 2019, and subsequently made it permanently accessible on the Audi website at www.audi.com/cgc-declaration.

*Read more online about the submitted declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) relating to the German Corporate Governance Code at **www.audi.com/cgc-declaration**.*

EVENTS OCCURRING SUBSEQUENT TO THE REPORTING DATE

In January 2020, Audi Electronics Venture GmbH, Gaimersheim, which was classified as held for sale as of December 31, 2019, was divested to Porsche Siebte Vermögensverwaltung GmbH, Wolfsburg. The selling price was EUR 650 million. Based on initial estimates, the impact of this transaction on the financial result is around EUR 0.6 billion.

The consequences of the spreading of the coronavirus may impact negatively on the net worth, financial position and financial performance in the 2020 fiscal year. Further details can be found in the Management Report in the sections “Report on Expected Developments” and “Report on Risks and Opportunities.”

Furthermore, there were no other events after December 31, 2019, subject to a reporting obligation in accordance with IAS 10.

MATERIAL GROUP COMPANIES

Name and registered office	Capital share in %
Fully consolidated companies	
Germany	
AUDI AG, Ingolstadt	
Audi Electronics Venture GmbH, Gaimersheim	100.0
AUDI Immobilien GmbH & Co. KG, Ingolstadt	100.0
AUDI Immobilien Verwaltung GmbH, Ingolstadt	100.0
Audi Real Estate GmbH, Ingolstadt	100.0
Audi Sport GmbH, Neckarsulm	100.0
Autonomous Intelligent Driving GmbH, Munich	100.0
Ducati Motor Deutschland GmbH, Cologne	100.0
PSW automotive engineering GmbH, Gaimersheim	100.0
UI-S 5-Fonds, Frankfurt am Main [1)]	100.0
International countries	
Audi Australia Pty. Ltd., Zetland	100.0
Audi Australia Retail Operations Pty. Ltd., Zetland	100.0
Audi Brussels S.A./N.V., Brussels	100.0
Audi Brussels Property S.A./N.V., Brussels	100.0
Audi do Brasil Indústria e Comércio de Veiculos Ltda., São Paulo	100.0
Audi (China) Enterprise Management Co., Ltd., Beijing	100.0
Audi Hungaria Zrt., Győr	100.0
Audi Japan K.K., Tokyo	100.0
Audi Japan Sales K.K., Tokyo	100.0
Audi Luxemburg S.A., Strassen	100.0
Audi México S.A. de C.V., San José Chiapa	100.0
Audi Singapore Pte. Ltd., Singapore	100.0
Audi Tooling Barcelona, S.L., Martorell	100.0
Automobili Lamborghini S.p.A., Sant’Agata Bolognese	100.0
Ducati Motor Holding S.p.A., Bologna	100.0
Ducati do Brasil Indústria e Comércio de Motocicletas Ltda., São Paulo	100.0
Ducati Japan K.K., Tokyo	100.0
Ducati Motor (Thailand) Co. Ltd., Amphur Pluakdaeng	100.0
Ducati Motors de Mexico S. de R.L. de C.V., Mexico City	100.0
Ducati North America, Inc., Mountain View / CA	100.0
Ducati North Europe B.V., Zoeterwoude	100.0
Ducati (Schweiz) AG, Feusisberg	100.0
Ducati U.K. Ltd., Towcester	100.0
Ducati West Europe S.A.S., Colombes	100.0
Shanghai Ducati Trading Co., Ltd., Shanghai	100.0
Italdesign Giugiaro S.p.A., Moncalieri	100.0
Officine del Futuro S.p.A., in liquidation, Sant’Agata Bolognese	100.0
Audi Canada, Inc., Ajax / ON [2)]	–
Audi of America, LLC, Herndon / VA [2)]	–
Automobili Lamborghini America, LLC, Herndon / VA [2)]	–
Companies accounted for using the equity method	
International countries	
Audi Volkswagen Korea Ltd., Seoul [3)]	100.0
Audi Volkswagen Middle East FZE, Dubai [3)]	100.0
Audi Volkswagen Taiwan Co., Ltd., Taipei [3)]	100.0
Volkswagen Group Italia S.p.A., Verona [3)]	100.0
Volkswagen Automatic Transmission (Tianjin) Co., Ltd., Tianjin	40.1
There Holding B.V., Rijswijk	29.7
FAW-Volkswagen Automotive Co., Ltd., Changchun	5.0
SAIC Volkswagen Automotive Co., Ltd., Shanghai	1.0

1) This is a structured entity pursuant to IFRS 10 and IFRS 12.
2) AUDI AG exercises control pursuant to IFRS 10.B38.
3) AUDI AG exercises significant influence according to IAS 28.6.

RESPONSIBILITY STATEMENT

“RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the net worth, financial position and financial performance of the Audi Group, and the Combined Management Report of the Audi Group and AUDI AG includes a fair review of the development and performance of the business and the position of the Audi Group and AUDI AG, together with a description of the principal opportunities and risks associated with the expected development of the Audi Group and AUDI AG.”

Ingolstadt, February 18, 2020

The Board of Management

Abraham Schot

Wendelin Göbel

Peter Kössler

Dr. Bernd Martens

Hans-Joachim Rothenpieler

Alexander Seitz

Hildegard Wortmann

INDEPENDENT AUDITOR'S REPORT

To AUDI Aktiengesellschaft, Ingolstadt

/ REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

// AUDIT OPINIONS

We have audited the consolidated financial statements of AUDI Aktiengesellschaft, Ingolstadt, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2019 and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of AUDI Aktiengesellschaft, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

> the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and

> the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

// BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

// EMPHASIS OF MATTER – DIESEL ISSUE

We draw attention to the information provided and statements made in section „Notes on the diesel issue" of the notes to the consolidated financial statements and in section „Legal risks" of the group management report with regard to the diesel issue including information about the underlying causes, the non-involvement of members of the board of management as well as the impact on these financial statements.

Based on the results of the various measures taken to investigate the issue presented so far, which underlie the consolidated financial statements and the group management report, there is still no evidence that members of the Company's Board of Management were aware of the deliberate manipulation of engine management software until notified by the US Environmental Protection Agency (EPA) in fall 2015. Nevertheless, should as a result of the ongoing investigation new solid knowledge be obtained showing that members of the Board of Management were informed earlier about the diesel issue, this could eventually have an impact on the consolidated financial statements and on the group management report for financial year 2019 and prior years.

The provisions for warranties and legal risks recorded so far are based on the presented state of knowledge. Due to the variety of the necessary technical solutions as well as the inevitable uncertain-ties associated with the current and expected litigation it cannot be excluded that a future assessment of the risks may be different.

Our opinions on the consolidated financial statements and on the group management report are not modified in respect of this matter.

// KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Accounting treatment of risk provisions for the diesel issue
❷ Impairment of capitalized development costs
❸ Completeness and measurement of provisions for warranty obligations arising from sales

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ Accounting treatment of risk provisions for the diesel issue

① Companies of the Audi Group are involved in investigations by government authorities in numerous countries (in particular in Europe, the United States and Canada) with respect to irregularities in the exhaust gas emissions from diesel engines in certain vehicles of the Audi Group. For the affected vehicles, partly different measures are being implemented in various countries. These include hardware and/or software solutions, vehicle repurchases or the early termination of leases and, in some cases, cash payments to vehicle owners. Furthermore, payments are being made as a result of criminal proceedings and civil law settlements with various parties. In addition, there are civil lawsuits pending from customers and dealers. Further direct and indirect effects concern in particular impairment of assets and customer-specific sales programs.

The Audi Group recognizes the expenses directly related to the diesel issue in its cost of sales, distribution costs as well as its other operating income. The negative effect on the net income of 2019 amounts to EUR 81 million. The reported provisions and contingent liabilities are exposed to considerable estimation risk due to the wide-ranging investigations and proceedings that are ongoing, the complexity of the various negotiations and pending approval procedures by authorities, and developments in market conditions. This matter was of particular significance for our audit due to the material amounts of the provisions as well as the scope of assumptions and discretion on the part of the executive directors.

② In order to audit the recognition and measurement of provisions for field activities and vehicle repurchases arising as a result of the diesel issue, we critically examined the processes put in place by the companies of the Audi Group to make substantive preparations to address the diesel issue, and assessed the progress made in implementing the technical solutions developed to remedy it. We compared this knowledge with the technical and legal substantiations of independent experts, as presented to us. We used in particular an IT data analysis solution to examine the quantity structure underlying the field activities and repurchases. We assessed the inputs used to measure the repair solutions and the repurchases. We used this as a basis to evaluate the calculation of the provisions.

In order to audit the recognition and measurement of the provisions for legal risks and the disclosure of contingent liabilities for legal risks resulting from the diesel issue, we assessed both the available official documents, as well as in particular the work delivered and opinions prepared by experts commissioned by the Volkswagen Group. As part of a targeted selection of key procedures and supplemented by additional samples, we inspected the correspondence relating to the litigation and, in talks with officials from the affected companies and the lawyers involved, and including our own legal experts, we discussed the assessments made.

Taking into consideration the information provided and statements made in the notes to the consolidated financial statements and in the group management report with regard to the diesel issue including information about the underlying causes, the non-involvement of members of the Board of Management as well as the impact on these financial statements, we believe that, overall, the assumptions and inputs underlying the calculation of the risk provisions for the diesel issue are appropriate to properly recognize and measure the provisions.

③ The Company's disclosures on the diesel issue are contained in the sections entitled "Notes to the balance sheet" and "additional disclosuers" in the notes to the consolidated financial statements and in the section "legal risks" in the group management report.

❷ Impairment of capitalized development costs

① In the consolidated financial statements of AUDI AG capitalized development costs amounting to EUR 6,461 million are reported under the "Intangible assets" balance sheet item. In accordance with IAS 38, research costs are treated as expenses incurred, while development costs for future series products are capitalized provided that sale of these products (in connection with other assets) is likely to bring an economic benefit. Until amortization begins, developments must be tested for impairment in accordance with IAS 36 at least once a year based on the cash-generating units to which they are allocated. To meet this requirement, over the period from capitalization until completion of development the Company assesses whether the capitalized development costs incurred are covered by future cash flows. Once amortization begins, an assessment must be carried out at each reporting date as to whether there are indications of impairment. If this is the case, an impairment test must be performed and any impairment loss recognized. For impairment losses recognized in prior periods, an annual assessment must be carried out as to whether there are indications that the reason for the impairment has ceased to apply.

In the financial year, the Audi Group adjusted the definition of cash-generating units for capitalized development costs as part of the corresponding changes within the Volkswagen Group. While the focus was previously on individual models or model groups, the Audi Group has made the judgment that the required degree of independence of cash flows from models or model groups is no longer given due to the increasing tightening of CO_2 and emissions-related fleet requirements and other changes in the fourth quarter of 2019 and that brands must therefore now be regarded as the smallest identifiable group of assets that meet the definition criteria of a cash-generating unit.

The Audi Group generally applies the present value of the future cash flows (value in use) from the relevant cash-generating units to test these intangible assets for impairment. The value in use is determined using the discounted cash flow method based on the Group's five-year financial planning prepared by the executive directors. The discount rate used is the weighted average cost of capital (WACC). The weighted average cost of capital applied in the Audi Group includes the weighted average cost of equity and debt before taxes.

Due to the adjusted definition of the cash-generating units a one-time write-up in an amount of EUR 243 million billion resulted in the fourth quarter 2019, which was recognized in the “other operating income” income statement line item. The result of this measurement depends to a large extent on the executive directors' assessment of future cash inflows and the discount rate used and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit we assessed whether, overall, the assumptions underlying the measurements (particularly in the form of future cash inflows) and the discount rates used provide an appropriate basis by which to test the individual cash-generating units for impairment. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as management's detailed explanations regarding key planning value drivers. We also evaluated that the costs for Group functions were properly included in the impairment tests of the respective cash-generating units. With the knowledge that even relatively small changes in the discount rate applied can in some cases have material effects on values, we also focused our testing on the parameters used to determine the discount rate applied, and evaluated the measurement model. We also assessed the consistency of the measurement model applied and evaluated the mathematical accuracy of the calculations. With respect to completed development projects, we inquired the executive directors about whether or not there were indications of impairment or that reasons for impairment had ceased to apply, and critically examined these assumptions based on our knowledge of the Group's legal and economic environment. As part of our audit, we also assessed whether the adjusted definition of the cash-generating units is in line with the relevant requirements of IAS 36. In our view, the measurement inputs and assumptions used by the executive directors, and the measurement model, were properly derived for the purposes of conducting impairment tests and the adjustment made to the definition of the cash-generating units are substantiated and reasonably documented. In our view, the measurement inputs and assumptions used by the executive directors, and the measurement model, were properly derived for the purposes of conducting impairment tests.

③ The Company's disclosures on capitalized development costs and the associated impairment testing and the adjustment of the cash-generating units are contained in sections entitled “Recognition and mearurement principles” and “Intangible assets” in the notes to the consolidated financial statements.

❸ Completeness and measurement of provisions for warranty obligations arising from sales

① In the consolidated financial statements of the Audi Group EUR 7,549 million in provisions for obligations arising from sales are reported under the "Other provisions" balance sheet item. These obligations primarily relate to warranty claims arising from the sale of vehicles, motorcycles, components and genuine parts.

Warranty claims are calculated on the basis of losses to date, estimated future losses and the policy on ex gratia arrangements. An estimate is also made of the discount rate. In addition, assumptions must be made about the nature and extent of future warranty and ex gratia claims. These assumptions are based on qualified estimates. From our point of view, this matter was of particular significance for our audit because the recognition and measurement of this material item is to a large extent based on estimates and assumptions made by the Company's executive directors.

② With the knowledge that estimated values result in an increased risk of accounting misstatements and that the measurement decisions made by the executive directors have a direct and significant effect on consolidated net profit/loss, we assessed – based on the results of our testing of the design and operating effectiveness of the internal control system – the appropriateness of the carrying amounts, including by comparing these figures with historical data and using the measurement bases presented to us. We evaluated the entire calculations (including discounting) for the provisions using the applicable measurement inputs and assessed the planned timetable for utilizing the provisions.

In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by the executive directors were sufficiently documented and supported to justify the recognition and measurement of the provisions for warranty obligations arising from sales.

③ The Company's disclosures on other provisions are contained in notes "Other provisions" to the consolidated financial statements.

// OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report, which we obtained prior of the date of our auditor's report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section „Governance" of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code

The financial report are expected to be made available to us after the date of the auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

// RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

// AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

> Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
> Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
> Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
> Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
> Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
> Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
> Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
> Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

/ OTHER LEGAL AND REGULATORY REQUIREMENTS

// FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on 23 May 2019. We were engaged by the supervisory board on 23 May 2019. We have been the group auditor of the AUDI Aktiengesellschaft, Ingolstadt, without interruption since the financial year 1970.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

/ GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Jürgen Schumann.

Munich, February 18, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Frank Hübner Wirtschaftsprüfer (German Public Auditor)	Jürgen Schumann Wirtschaftsprüfer (German Public Auditor)

10-YEAR OVERVIEW

		2010	2011	2012 [1]
Production				
Automotive segment	Cars [2]	1,150,018	1,302,981	1,469,205
	Engines and electric powertrains	1,648,193	1,884,157	1,916,604
Motorcycles segment	Motorcycles	–	–	15,734 [4]
Deliveries to customers				
Automotive segment	Cars	1,293,453	1,512,014	1,634,312
Audi brand [5]	Cars	1,092,411	1,302,659	1,455,123
Lamborghini brand	Cars	1,302	1,602	2,083
Other Volkswagen Group brands	Cars	199,740	207,753	177,106
Motorcycles segment	Motorcycles	–	–	16,786 [4]
Ducati brand	Motorcycles	–	–	16,786 [4]
Workforce	Average	59,513	62,806	67,231
From the Income Statement				
Revenue	EUR million	35,441	44,096	48,771
Personnel costs	EUR million	4,274	5,076	5,069
Personnel costs per employee [6]	EUR	72,172	81,189	75,759
Depreciation and amortization	EUR million	2,170	1,793	1,937
Operating profit	EUR million	3,340	5,348	5,365
Profit before tax	EUR million	3,634	6,041	5,951
Profit after tax	EUR million	2,630	4,440	4,349
From the Balance Sheet (Dec. 31)				
Non-current assets	EUR million	10,584	12,209	18,044
Current assets	EUR million	20,188	24,811	22,357
Equity	EUR million	11,310	12,903	15,092
Liabilities	EUR million	19,462	24,117	25,309
Balance sheet total	EUR million	30,772	37,019	40,401
From the Cash Flow Statement				
Cash flow from operating activities	EUR million	5,797	6,295	6,144
Investing activities attributable to operating activities	EUR million	2,260	2,905	6,804 [8]
Net cash flow	EUR million	3,536	3,390	–660 [8]
Net liquidity (Dec. 31)	EUR million	13,383	15,716	13,396 [8]
Financial ratios				
Operating return on sales	Percent	9.4	12.1	11.0
Return on sales before tax	Percent	10.3	13.7	12.2
Return on investment (ROI)	Percent	24.7	35.4	30.8
Ratio of capex [11]	Percent	4.1	5.1	4.8
Research and development ratio	Percent	7.1	6.4	7.0
Equity ratio (Dec. 31)	Percent	36.8	34.9	37.4
Audi share				
Share price (year-end price) [12]	EUR	635,00	549,00	525,10
Compensatory payment	EUR	2,20	3,00	3,50

1) 2012: financial figures adjusted to take account of the revised IAS 19; 2017: financial figures adjusted to take into account initial implementation of IFRS 9 and IFRS 15
2) Since 2011, including vehicles built in China by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China)
3) The figure has been adjusted to reflect the amended counting method.
4) Since acquisition of the Ducati Group in July 2012
5) Including delivered vehicles built locally by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China)
6) Calculated on the basis of employees of Audi group companies
7) Taking into account special items, in particular in connection with the diesel issue

2013	2014	2015	2016	2017 [1]	2018	2019
1,608,048	1,804,624	1,828,683 [3]	1,903,259	1,879,840	1,871,386	1,802,073
1,926,724	1,974,846	2,023,618	1,927,838	1,966,434	1,955,532	1,969,731
45,018	45,339	55,551	56,978	56,743	53,320	51,723
1,751,007	1,933,517	2,024,881	2,088,187	2,105,084	2,081,418	1,853,833
1,575,480	1,741,129	1,803,246	1,867,738	1,878,105	1,812,485	1,845,573
2,121	2,530	3,245	3,457	3,815	5,750	8,205
173,406	189,858	218,390	216,992	223,164	263,183	55
44,287	45,117	54,809	55,451	55,871	53,004	53,183
44,287	45,117	54,809	55,451	55,871	53,004	53,183
71,781	77,247	82,838	87,112	90,402	91,477	90,783
49,880	53,787	58,420	59,317	59,789	59,248	55,680
5,543	6,068	6,602	6,761	7,219	7,336	7,898
77,596	78,921	80,071	77,990	80,234	80,583	87,428
2,071	2,455	2,665	3,159	3,593	3,853	4,270
5,030	5,150	4,836 [7]	3,052 [7]	4,671 [7]	3,529 [7]	4,509
5,323	5,991	5,284 [7]	3,047 [7]	4,717 [7]	4,361 [7]	5,223
4,014	4,428	4,297 [7]	2,066 [7]	3,432 [7]	3,463 [7]	3,943
19,943	22,538	25,963	28,599	29,469	32,393	34,211
25,214	28,231	30,800	32,403	33,846	33,205	32,422
18,565	19,199	21,779	25,321	28,171	29,698	28,395
26,592	31,570	34,985	35,685	35,509	35,900	38,431
45,156	50,769	56,763	61,090	63,680	65,598	66,878
6,778	7,421	7,203	7,517	6,173	7,013	7,479
3,589	4,450	5,576 [9]	5,423	1,861 [10]	4,871	4,319
3,189	2,970	1,627 [9]	2,094	4,312 [10]	2,141	3,160
14,716	16,328	16,420 [9]	17,232	20,788 [10]	20,442	21,754
10.1	9.6	8.3 [7]	5.1 [7]	7.8 [7]	6.0 [7]	8.1
10.7	11.1	9.0 [7]	5.1 [7]	7.9 [7]	7.4 [7]	9.4
26.4	23.2	19.4 [7]	10.7 [7]	14.4 [7]	10.0 [7]	12.7
4.8	5.5	6.0	5.7	6.5	5.9	4.9
8.0	8.0	7.3	7.5	6.4	7.1	7.9
41.1	37.8	38.4	41.4	44.2	45.3	42.5
638.05	649.95	678.00	631.00	725.95	782.00	800.00
4.00	4.80	0.11	2.00	3.90	4.80	X [13]

8) Taking into account the acquisition of participations in Volkswagen International Belgium S.A., Brussels (Belgium), and in Ducati Motor Holding S.p.A., Bologna (Italy)
9) Taking into account the participation in There Holding B.V., Rijswijk (Netherlands), in connection with the HERE transaction
10) Taking into account the transfer of the minority participations in Volkswagen International Belgium S.A., Brussels (Belgium), to Volkswagen AG, Wolfsburg
11) Investments in property, plant and equipment, investment property and other intangible assets according to Cash Flow Statement in relation to revenue
12) Year-end price of the Audi share on trading venue Xetra of the Frankfurt Stock Exchange
13) In accordance with the resolution to be passed by the Annual General Meeting of Volkswagen AG, Wolfsburg, for the 2019 fiscal year on May 7, 2020

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